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STATE DOCUMENTS

STATE OF MONTANA
BOARD OF INVESTMENTS
REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 1975



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA



STATE OF MONTANA

BOARD OF INVESTMENTS

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1975

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF INVESTMENTS

Maxine C. Johnson, Chairman	January 3, 1977
John MacMillan	January 3, 1977
Dean H. Albert	January 3, 1977
John A. Hauf	January 1, 1979
Paul D. Caruso	January 1, 1979

ADMINISTRATIVE OFFICIALS

Jack C. Crosser	Director, Department of Administration
James R. Howeth	Investment Officer
David J. Brown	Assistant Investment Officer

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Board of Investments, Department of Administration, and Department of State Lands are included in the back of this report.

	<u>Page</u>
Review the need for each depository bank.	10
<u>Agency Reply:</u> Do not concur. See page 103.	
Establish policies for minimum compensating balances based on identifiable costs.	10
<u>Agency Reply:</u> Concur. See page 103.	
Establish a method of automatically transferring money in depository bank accounts by direct bank credits.	11
<u>Agency Reply:</u> Concur. See page 103.	
Implement a servicing agreement between the board and all servicing institutions on behalf of Public Employees' Retirement System, Teachers' Retirement System, and Workers' Compensation Division.	13
<u>Agency Reply:</u> Concur. See page 103.	
Provide for the servicing of SBA loans in a participation agreement.	13
<u>Agency Reply:</u> Concur. See page 103.	
Provide for independent appraisals for conventional loans in a revised servicing agreement.	13
<u>Agency Reply:</u> Concur. See page 104.	
Require mortgage servicers to remit payments to the state in a more timely manner.	13
<u>Agency Reply:</u> Concur. See page 104.	
Distribute investment earnings on the above-named funds to the general fund in compliance with Section 79-309, R.C.M. 1947, or seek legislation to clarify the proper distribution of investment earnings for these accounts.	15
<u>Agency Reply:</u> Concur. See page 104.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Review all other accounts to determine that there is proper authorization for them to receive investment income.	15
<u>Agency Reply:</u> Concur. See page 104.	
Work with the Investment Division to operate PMS on a more timely production schedule.	19
<u>Department of Administration Reply:</u> Concur. See page 105.	
Develop software to account for STIP transactions.	19
<u>Department of Administration Reply:</u> Concur. See page 105.	
Establish accounting control over mortgage investments and mortgage income and assume all mortgage collection functions now performed by the investing agencies.	21
<u>Department of Administration Reply:</u> Concur. See page 105.	
Require the use of at least two dealer quotes that represent fairly the market value of the STIP portfolio on a day-to-day basis.	23
<u>Department of Administration Reply:</u> Concur. See page 106.	
Establish a properly supervised double entry accounting system for STIP.	23
<u>Department of Administration Reply:</u> Concur. See page 106.	
Prepare financial statements which will fairly present the activity and condition of STIP.	23
<u>Department of Administration Reply:</u> Concur. See page 106.	
Eliminate the double reporting of STIP earnings.	24
<u>Department of Administration Reply:</u> Concur. See page 106.	
Require the correction of yield errors in PMS and adequately review all information prior to presentation in the Board of Investments' annual report.	25

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
<u>Department of Administration Reply:</u> Concur. See page 106.	
Require adherence to established policy for the market value presentation of United States Government obligations, corporate, and Canadian bonds.	25
<u>Department of Administration Reply:</u> Concur. See page 106.	
Include in the Board of Investments' annual report financial statements summarizing the investment program's year-end financial position, the results of the year's investment transactions and activities, and the changes in invested balances for each investing fund.	29
<u>Department of Administration Reply:</u> Concur. See page 107.	
Adopt the accrual method of accounting for reporting the results of the board's operations in the investment program annual report.	32
<u>Department of Administration Reply:</u> The department is considering reporting the results of the board's operations on both the current method and the accrual method. See page 107.	
The Department of State Lands consider amortized portions of premiums and discounts in calculating quarterly distributable income.	41
<u>Department of State Lands Reply:</u> Concur. See page 111.	
The Department of State Lands replace overdistributed permanent funds by the amortization method proposed by the Board of Investments.	41
<u>Department of State Lands Reply:</u> Concur. See page 111.	
The Department of State Lands establish proper accounting for losses incurred on security exchanges.	41
<u>Department of State Lands Reply:</u> The department believes that proper accounting for losses should be performed but believes that the Board of Investments should perform the accounting. See page 111.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
The Department of State Lands request assistance from the Department of Administration in designing an adequate accounting system for determining proper distributable income.	41
<u>Department of State Lands Reply:</u> Do not concur. See page 111.	
The Department of State Lands request timely journal entries and necessary accounting data from the Investment Division to allow proper quarterly distributions.	41
<u>Department of State Lands Reply:</u> The department believes that the Board of Investments should determine distributable income. See page 110.	
The Department of State Lands seek assistance from a professional accountant in accumulating data which provides the basis for quarterly distributions.	41
<u>Department of State Lands Reply:</u> Do not concur. See page 111.	
The Department of State Lands prepare quarterly distributions currently prepared by the state Treasurer's office.	41
<u>Department of State Lands Reply:</u> Do not concur. See page 111.	
<u>Department of Administration reply to the above recommendations directed to the Department of State Lands:</u>	
The Department of Administration will assist the the Department of Lands in establishing an adequate system for determining proper distributable income. The Department of Lands will be instructed to use this system in determining the required distributions. See page 108. Also see Auditors' Comment on page 113.	



STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the portfolio of investments of the Board of Investments of the State of Montana as of June 30, 1975, the related statement of investment income and the related financial information listed in the table of contents of this report for the year then ended. We also examined the statement of condition of the Short-Term Investment Pool as of June 30, 1975 and the related statements of income and disbursements and changes in net asset value for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as set forth in paragraph four below. We performed a physical count of all securities held in custody by the State Treasurer and a sample of mortgages held by servicing institutions. We confirmed all other securities owned at June 30, 1975, with custodian institutions.

As discussed on page 26 of the accompanying report, the portfolio listing and other financial information published by the Board of Investments for the fiscal year 1974-75 is not presented in accordance with generally accepted accounting principles or generally accepted reporting standards. This resulted in a failure to report adequately

the financial position, results of operations, and the changes in financial position of the funds controlled by the board for the year ended June 30, 1975.


As explained on page 29 of the accompanying report, the board included \$88,920 of earnings due before June 30 but received after that date in its presentation of cash income. The board also included as cash basis income for fiscal year 1974-75 \$5,509 of income reported in the previous year. These items result in an overstatement of fiscal year 1974-75 cash basis income by \$94,429. Additionally, cash basis income is further modified by the amortization of premiums and discounts and amortization of deferred losses on bond swaps, as described on page 100 of the accompanying report.

The condition of the Investment Division's records relating to the Short-Term Investment Pool (STIP) was such that we were unable to perform certain auditing tests and procedures which we deemed necessary to comply with generally accepted auditing standards. The STIP accounting system does not provide an adequate basis for preparation of financial statements. The Division's inadequate accounting system and inadequate internal controls resulted in numerous errors which have occurred since the beginning of STIP. The Investment Division could not prepare an accurate value per unit and could not calculate income due each unit of the Short-Term Investment Pool as of June 30, 1975. The STIP Statement of Changes in Net Asset Value does not present fairly the changes in net asset value of STIP for the year ended June 30, 1975. Errors in this statement are described on pages 22 and 23 of the accompanying report. Additionally, the Statement of Income and Disbursements contains amounts prepared from two different reporting periods because of errors result-

ing from converting the fiscal year used for STIP in daily operations to the financial period used for reporting purposes. Accordingly, because of the condition of the accounting records, we do not express an opinion on the Short-Term Investment Pool financial statements.

In our opinion, except for the effects of the items discussed in the second and third paragraphs above, the aforementioned portfolio listing, the statement of investment income, and the related financial information present fairly securities controlled by the Board of Investments at June 30, 1975, and the cash revenue collected by the board for the year ended June 30, 1975, on a basis consistent with that of the preceding year.

Respectfully submitted,

A handwritten signature in dark ink, reading "Morris L. Brusett". The signature is written in a cursive style with a prominent "M" and a stylized "B".

Morris L. Brusett, C.P.A.
Legislative Auditor

March 22, 1976

GENERAL

Article VIII, Section 13, of the state Constitution, approved by the voters and effective on July 1, 1973, states that "The legislature shall provide for a unified investment program for public funds" The Board of Investments, as created by Section 82A-204 of the Executive Reorganization Act of 1971, currently fulfills this requirement. The Governor appointed board members who held their first meeting on August 26, 1971. The Investment Division began operating and assuming investment functions at that time.

The Investment Division of the Department of Administration performs the day-to-day investment activities and record-keeping functions necessary to implement the actions taken by the Board of Investments. The Board reviews and approves the investment transactions executed by the division and establishes broad policies to guide Investment Division personnel.

Section 79-310, R.C.M. 1947, sets some specific limitations on certain investment funds and types of securities; additionally, the law requires the board to operate by the Prudent Man Rule which requires it to exercise "that degree of judgment and care, under circumstances from time to time prevailing, which men of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable income to be derived."

Section 82A-204, R.C.M. 1947, states, in part, that "The Board is allocated to the department (of administration) for administrative purposes only as prescribed in Section 82A-108." Section 82A-108 states that an agency assigned to a department shall submit its budget requests and submit reports as required by law or the governor through its asso-

ciated department. Additionally, the administering department shall direct and supervise the budgeting, record-keeping and reporting of the agency; collect all revenues for the agency and deposit them in the proper fund or account; provide the staff for the agency and print and disseminate for the agency any required notices, rules, or orders. We discuss this matter in greater detail on page 15.

Invested state assets under the Board of Investments' control increased from \$480 million at June 30, 1974 to \$551 million at June 30, 1975, a 14.7 percent increase.

Activity in the Short-Term Investment Pool (STIP) increased dramatically in the 1974-75 fiscal year. The pool, created by legislative action in 1973, expanded from 29 to 58 members, including state agencies, university units, cities and counties, school districts, and local public employee retirement associations. Pooled investments increased from nearly \$85,000,000 to over \$133,000,000--a 57 percent increase in one year.

During the year, the Board of Investments formed a joint committee with the Montana Bankers Association (MBA) to examine the present mortgage purchasing policy and to recommend changes to the policy. Additionally, the board has conducted its monthly meetings at sites around the state and has invited local bankers to attend the meetings to familiarize them with the board's mortgage purchasing policy. The board has made a significant effort to purchase Montana mortgages, resulting in purchases of approximately \$4,250,000 of mortgages in the current year. An official at the Investment Division stated that the board purchases approximately 95 percent of the mortgages offered to it for sale.

DEMAND DEPOSIT BALANCES

The state Treasurer maintains excessively large deposits in 147 "depository banks" outside of Helena. The daily balance in these banks averaged \$5,697,900 for the months of September, October, and November 1975. Because the Board of Investments cannot invest this idle cash, the state loses approximately \$399,200 of income annually. An additional \$53,000 of income is lost through idle cash remaining in Helena banks.

In addition to the amount of money in demand deposit accounts, we question the need for the number of "depository banks" in some Montana cities. Examples of excessive depositories in one locality include:

<u>Town</u>	<u>Number of Depository Banks</u>
Butte	4
Billings	7
Great Falls	6
Bozeman	4
Kalispell	4
Red Lodge	2
Absarokee	2
Baker	2
Livingston	2
Glendive	2
Helena	4

Section 79-301(1), (3), and (4), R.C.M. 1947, authorizes the Board of Investments to designate depository banks for state funds and the balance to be maintained in these accounts.

The Board of Investments should designate banks as depositories for state funds on the basis of a demonstrated need. During our three month test period, three depository banks' balances changed less than \$125, and five balances did not change at all. Our review of balances throughout the year disclosed similar situations.

Maintenance of this large number of bank accounts creates additional administrative work in the state Treasurer's office, and we can

determine no justifiable reason for maintaining this excessive number of accounts.

As noted above, the Treasurer leaves excessive balances in these demand accounts. The board performed a limited study in 1972 for determining compensating balances, the balances left in the banks which theoretically reimburse the depository banks for their services. The board has set a total maximum balance of \$700,000 for outside banks, and the state Treasurer tries to limit the individual balances to \$2,000 and a \$375,000 total. Few or no economic benefits accrue to a community from the small balances left in the majority of the depository banks. The unvarying balances in those banks mentioned above ranged from an average daily balance of \$2,367 to \$10,998. If these deposits are intended to provide economic benefits to a community, certificates of deposit would seem a more stable source of loanable funds, considering the uncertainty of demand deposits and no guaranteed minimum compensating balance.

However, the board has established no criteria for, and banks have provided no basis for, the cost of these services. Therefore, we cannot determine that any of the balances are equitable.

In July 1973, the Board of Investments established a single clearing bank for the state Treasurer's transactions. Previously many Helena banks cleared state warrants, making it difficult to determine the state's cash position. Helena banks now bid annually on a competitive basis for the right to process the state Treasurer's transactions. The banks identify the services they will render in return for a specified compensating balance. This system has provided substantial savings to the state.

The board should require all banks in a community to bid for an established minimum balance on a basis similar to the system used for the one-bank system in Helena. Officials at Montana banks have stated that most banks can identify costs associated with requirements for servicing the accounts. This bidding method should reduce the number of depository banks since one or two banks could handle the needs for local deposit of state money--at the same time reducing uninvested cash.

The Treasurer uses an outdated system to transfer money from these "outside" banks to the central Helena bank where the money is available for investment. The Treasurer now writes a check on the outside bank and deposits it with the First National Bank of Helena, which clears it through the Federal Reserve Bank. This system takes too much paperwork and too much time, which results in a limited number of checks being written because of the time needed for processing and space limitations on the documents.

To determine the amount to be withdrawn from outside banks the Treasurer uses a Statewide Budgeting and Accounting System (SBAS) report. However, the Treasurer's office processed this same revenue data two days prior to its appearance in the SBAS records. During these two days, the state's cash lay idle in demand deposit accounts. This delay results in a significant loss of investment income.

To prevent lost investment income due to these current practices, the Treasurer and the Board of Investments should establish a compensating balance for each bank and have the bank transfer all excess money automatically to the Helena bank for investment by the Investment Division.

Accepted investment, banking, and business practices include use of a correspondent bank process called "direct wire" to make transfers such as those made by check by the Treasurer. Member banks of the Federal Reserve System transfer money between banks without writing checks. If used by the Treasurer, this system would allow timely investment of a large amount of money normally not shown as available from present Treasurer's records. In fact, the Treasurer uses direct wire transfers almost daily to effect Investment Division transactions and frequently uses it to withdraw money from the depository banks when notified by agencies of large deposits.

Deposits recorded by SBAS would not show the correct depository bank balances because of agency-created time lag, often amounting to two weeks or more. Money exists in state Treasurer accounts, but because of the paperwork involved, the Treasurer does not know about the money. Automatic bank transfers would reduce the loss caused by this delay.

We calculated an approximate annual loss of income resulting from the time delay problems described above. Using the direct wire transfer method during calendar 1975, the board could have earned approximately \$399,200 additional income, based on a $7\frac{1}{2}$ percent interest rate and the \$375,000 maximum compensating balance established by the Treasurer. The board could have earned approximately \$374,800 based on a \$700,000 maximum compensating balance.

We noted a similar loss of income resulting from cash deposited in three Helena banks which are not the single clearing bank. Analysis of bank statements of September 1975 through December 1975 showed an average daily balance of approximately \$802,000. The four month activity of the three Helena banks in question is shown in the following table. The

board has not established any compensating balances for two of these banks, and currently the Treasurer requires the banks to report a collected balance daily. However, the Treasurer's office does not draw money from these banks on a consistent basis, resulting in an estimated annual investment income loss of over \$53,000, based on a 7½ percent interest rate for this period supplied by the Investment Division and a collected compensating balance of \$40,000 for Bank A, \$50,000 for Bank B, and \$5,000 for Bank C.

We question whether these banks should even be state depositories. The state invests only the money held in the single clearing bank. Using these other banks, rather than the one-bank in Helena, causes a daily delay in investing significant amounts of state money.

HELENA BANKS OTHER THAN THE SINGLE CLEARING BANK

	Bank A	Bank B	Bank C	Totals
Average Daily Balance	\$ 178,679	\$ 578,712	\$44,528	\$ 801,919
Average Number of Monthly Deposits	60	66	21	147
Average Monthly Amount of Deposits	\$1,546,264	\$2,026,332	\$31,680	\$3,604,276
Total Number of Draws During Test Period	18	18	2	38

This table clearly shows excessive amounts of money left in Helena banks. It also points out the amount of money unavailable for investment since it has been deposited to a Helena bank other than the single clearing bank. We can find no reason to justify the deposit of millions of dollars in a bank other than the single clearing bank.

RECOMMENDATION

We recommend that the Board of Investments:

1. *Review the need for each depository bank.*
2. *Establish policies for minimum compensating balances*

based on identifiable costs.

3. *Establish a method of automatically transferring money in depository bank accounts by direct bank credits.*

MORTGAGE LOANS SERVICING AGREEMENTS

We performed a detailed audit of selected mortgages owned by various retirement systems and serviced by various banks and mortgage companies. We reviewed 21 percent of the approximately \$41,000,000 in mortgages and 24 percent of the banks and mortgage companies that service the mortgages. The review revealed exceptions to the policies set forth in the mortgage servicing agreements. We also reported exceptions of this type in our fiscal year 1973-74 report. Continued existence of exceptions noted at the servicing institutions, which received approximately \$173,000 in fiscal year 1974-75 for servicing state-owned mortgages, shows a lack of compliance with the servicing agreements.

The Board of Investments purchases mortgages and is responsible for the proper control of mortgages, but the mortgages are serviced under agreements established prior to 1972 by the Public Employees' Retirement System, the Teachers' Retirement System, and the Workers' Compensation Division, when these agencies managed their own investment programs.

The existing servicing agreements contain provisions that may result in weakened control and, in some cases, loss of revenue to the retirement funds.

Current servicing agreements do not include provisions for servicing Small Business Administration (SBA) loans. Bank officers at two Montana banks currently servicing SBA's purchased by the Board of Investments, have stated they have not signed a participation agreement because the current agreement does not adequately provide for SBA loans. They

have also indicated that the banks will not sell any more SBA's to the state until the agreement is amended to include SBA loans.

Present servicing agreements do not require independent appraisals for conventional loans. The agreements provide for a maximum loan of 75 percent of the appraised value, in compliance with Section 79-310, R.C.M. 1947. In our audit tests of mortgages, we noted instances prior to the board's existence where bank officials prepared the appraisal for the mortgage offerings. The board has established a mortgage purchasing policy requiring an independent appraisal; however, the servicer does not sign an agreement including this policy, and the servicer may not be held liable for any loss resulting from this situation if the board failed to enforce their policy. The servicing agreement should require an independent appraisal performed by an appraiser approved by the Board of Investments.

We examined VA and FHA guaranteed mortgages which became conventional loans, prior to the board's existence, and the outstanding balance at the time of conversion did not comply with the 75 percent limit of the appraised value. The servicing agreement should have provisions to preclude this situation.

Present servicing agreements require servicing institutions to remit mortgage payments "once a month." These monthly remittances average approximately \$560,000 net of servicing fees, with the servicer retaining all late payment fees. Our audit tests of mortgage income showed that most servicers make their once-a-month payments in the last week of the month. Since the majority of individual mortgage payments to servicers are due on the first day of each month, the servicers

invest the state's income for their own benefit for almost a month before remitting the income to the state.

The board should require prompt remittance of the state's investment income. This could require contract designation of the most advantageous date to the state for remittance of mortgage payments. Alternatively, the board could require biweekly or weekly remittances to the state. The board should also consider the potential advantages of servicers' making these remittances to state depository banks rather than mailing checks to the state.

RECOMMENDATION

We recommend that the Board of Investments:

- 1. Implement a servicing agreement between the board and all servicing institutions on behalf of Public Employees' Retirement System, Teachers' Retirement System, and Workers' Compensation Division.*
- 2. Provide for the servicing of SBA loans in a participation agreement.*
- 3. Provide for independent appraisals for conventional loans in a revised servicing agreement.*
- 4. Require mortgage servicers to remit payments to the state in a more timely manner.*

GENERAL FUND INCOME

During our review of investment funds managed by the Board of Investments, we found no statutory authorization for the Livestock Commission Fund, the Livestock Board Emergency Fund, the Water Well Fund, the Cosmetology Board Fund and the Oil and Gas Fund to be credited

with investment earnings. This is not an accounting matter. Investment of moneys for these funds has been performed by the board as the result of a board policy decision. These funds had assets of \$515,482 at June 30, 1975 and received income of \$39,658 in fiscal year 1974-75.

Article VIII, Section 13, Constitution of Montana, requires that the legislature provide for a unified investment program for public funds. The legislature has established a unified investment program in Section 79-308 through 79-311, R.C.M. 1947. In setting forth the procedures to be followed in investing state funds, Section 79-309 provides in part:

"However, the securities purchased and cash on hand for all treasury fund accounts not otherwise specifically designated by law . . . to be invested shall be pooled in an account to be designated 'Treasury Cash Account' and placed in one of the investment funds designated below. The share of the income for this account shall be credited to the general fund." (Emphasis added)

Livestock Commission and Livestock Emergency Fund

Section 82A-1301, R.C.M. 1947, created the Department of Livestock and Title 46, R.C.M. 1947, contains most of the laws pertaining to livestock. The statutes contain no provisions pertaining to investment income; therefore, income earned by the Livestock Commission Fund and the Livestock Board Emergency Fund belongs to the general fund.

Water Well

Statutes relating to well drilling and water well contractors contained in Title 66, Chapter 26, R.C.M. 1947, have no provisions regarding investment income; thus any investment income earned by this fund belongs to the general fund.

Cosmetology Board Fund

Title 66, Chapter 8, R.C.M. 1947, contains the statutes relating to and regulating the practice of cosmetology. These statutes have no

reference to investment income; consequently, the investment earnings should be credited to the general fund.

Oil and Gas

The Board of Oil and Gas Conservation within the Department of Natural Resources and Conservation, created by Section 82A-1508, R.C.M. 1947, controls the development, production and conservation of oil and gas pursuant to the statutory provisions in Title 60, R.C.M. 1947. These statutes make no reference to the disposition of any investment income; the general fund should receive these earnings.

RECOMMENDATION

We recommend that the Board of Investments:

- 1. Distribute investment earnings on the above-named funds to the general fund in compliance with Section 79-309, R.C.M. 1947, or seek legislation to clarify the proper distribution of investment earnings for these accounts.*
- 2. Review all other accounts to determine that there is proper authorization for them to receive investment income.*

REPORTING AUTHORITY

As noted on page 4, the Board of Investments has the sole authority to establish policies for the investment of state funds in accordance with statutory law and the Constitution, and the board is attached to the Department of Administration for administrative purposes only. The Investment Division of the Department of Administration, as established in the Montana Administrative Code, Section 2-2.1-0100, is designated by the Department of Administration to provide administrative services for

the Board of Investments. An Executive Reorganization Directive (ERD-1), issued by the Governor on June 25, 1971, sets forth policy statements concerning transfer or allocation of an agency to a department for "administrative purposes only."

The purpose of the directive was to clarify departmental control over administrative functions of the attached agencies, including the hiring of staff to carry out the policies established by the agency. Section 82A-204, R.C.M. 1947, creating the Board of Investments, provides in part: "Personnel for the board shall be appointed by the department subject to the approval of the board." Although the Board of Investments has a veto power over the appointment of personnel, the Department of Administration has the appointing authority, and the board does not have the authority to hire its own staff. Therefore, the administrative functions of the Board of Investments are a duty of the Department of Administration. The board only has the authority to direct the investment of state funds and does not have the authority or responsibility for the accountability over these investments. The staff of the Investment Division is hired by the Department of Administration and is responsible to that department for all functions not relating to the board's investment policies.

Executive Reorganization Directive (ERD-1) also states that the department shall "supervise and direct the budgeting, recordkeeping, reporting and related administrative and clerical functions of the agency." The department shall also supervise the form in which reports required by law or the Governor are submitted. The directive defines "clerical and administrative" functions of an agency as those functions necessary in the execution and implementation of policies established by

the agency. These are the normal, day-to-day functions an agency must perform in the course of its operation.

The Department of Administration has supervised some of the clerical and administrative functions performed by the Investment Division, but it has not supervised or directed the recordkeeping and reporting functions of the agency. The Department of Administration has the responsibility to perform these functions as set forth in ERD-1. This responsibility includes determining the recordkeeping procedures used by the Investment Division, the basis of accounting used by the division and the format of the Board of Investments' annual report, which is used to provide interested parties a basis for evaluating the results of the board's investment program.

Because the Department of Administration has this responsibility, we direct to it our recommendations pertaining to the recordkeeping and reporting functions resulting from the Board of Investments' activities.

ACCOUNTING SYSTEM

The Investment Division uses a computer software system (Portfolio Management System-PMS) as its basic accounting system. We expressed concern in our fiscal year 1973-74 audit report as to the Investment Division's capability to service the package and produce timely accounting reports. PMS did not operate on a timely basis during fiscal year 1974-75, and as of the date of this report, March 22, 1976, the system did not run on a timely production basis.

The state Treasurer's office has instituted a system of reconciling the PMS inventory listings to securities on hand. Upon institution of this program in October 1975, the Treasurer's office had to use the July 1975 Investment Division's records since they were the latest reports

available. As of March 1, 1976, the Treasurer was using December 1975 PMS reports. This problem reduces the effectiveness of the Treasurer's reconciliation system. PMS month-end reports should be issued by the tenth day of the following month. Only then would they provide effective management tools.

We recommended in our fiscal year 1973-74 audit report that the Investment Division become as self-sufficient as possible in the use of the PMS package. Since our report was issued, the Investment Division's computer systems analyst-programmer has left the division. The division has no full time computer personnel experienced in maintaining PMS.

The division plans to use the Department of Administration Data Processing Division's personnel to provide maintenance and programming of the package. An official of the Data Processing Division stated that the Investment Division can expect to wait six months before they will have a full time person fully familiar with the system. The Data Processing Division expects to be able to maintain the system within one year. During this time, the division will have to rely on their former employee and a former official of the company that sold the PMS package to the division. The vendor company has since gone out of business.

As mentioned on page 5 of this report, the Short-Term Investment Pool (STIP) has increased significantly in size and will soon require mechanized daily updates in accounting records and unit computations. At this time STIP records and unit calculations are updated by hand. As soon as possible, the Investment Division must acquire data processing capabilities to perform this work.

RECOMMENDATION

We recommend that the Department of Administration:

- 1. Work with the Investment Division to operate PMS on a more timely production schedule.*
- 2. Develop software to account for STIP transactions.*

REAL ESTATE CONTROLS AND COLLECTIONS

R.C.M. 82A-204 of the Montana Executive Reorganization Act of 1971 transferred the investment function for all state funds to the Board of Investments. The law made no specific exemption for investments in real estate purchased either previously by other state agencies or by the board.

We recommended in our fiscal year 1973-74 audit report that the board assume all mortgage accounting and collection functions now performed by investing agencies. The board responded to this report that they "will work with the Department of Administration to devise proper and efficient accounting and collection methods." The Department of Administration's responsibility for supervising the recordkeeping of the Investment Division includes the establishment of a uniform record of mortgage investments. Department representatives and the board have met many times to discuss the possibility of contracting this service to an outside agency, such as the newly created State Housing Authority. However, no action has taken place to correct the lack of accountability for the state's mortgages.

The Investment Division does not currently maintain any detailed accounting records for FHA notes and SBA loans owned by PERS and TRS or mortgages owned by the various retirement systems. Neither the Investment Division nor the Treasurer could provide us with detailed listings

of mortgages, balances, locations, interest rates, or monthly payment amounts as of June 30, 1975. We had to obtain the listings of mortgage and FHA notes from agencies that own the mortgages. Two of the agencies had to obtain listings from the servicers since the agencies no longer perform any detailed accounting over mortgages. This means that no one in state government keeps track of the mortgages the state owns; therefore, no one can review monthly mortgage income to determine that moneys due are collected.

The mortgage listings obtained by the agencies contain balances as of the last date in June that servicers remitted money to the agencies--not balances as of June 30, 1975. The agencies submitted these balances to the Investment Division which used these figures as the basis for presenting investments in mortgages for these agencies. However, these balances do not show mortgage payments made to servicers between the last remittance date and June 30, 1975. These interim payments amounted to more than \$32,600; consequently, the board overstated the investment in mortgages as of June 30, 1975 by this amount. If the division maintained control over mortgages, they would not have to rely on these balances from investing agencies and could properly reflect the state's investment in mortgages at year-end.

Additionally, the Investment Division does not maintain detailed accounting records for the approximately \$327,000 of land and buildings owned by PERS and TRS and does not receive all necessary documents for recording rental income from these investments.

RECOMMENDATION

We recommend that the Department of Administration establish accounting control over mortgage investments and mortgage income and assume all mortgage collection functions now performed by the investing agencies.

SHORT-TERM INVESTMENT POOL

The Short-Term Investment Pool (STIP), created by the 42nd Legislative Assembly, experienced a dramatic increase in the size of the portfolio and the number of participants in fiscal year 1974-75. As of June 30, 1975, the pool had assets of \$134,340,680 and 58 participants.

Unit Value Calculations

Our review of STIP transactions disclosed that the Investment Division receives two market quotes from dealers for the securities in the STIP portfolio. These market values are used to calculate the daily unit value of STIP units. We discovered that only one of these dealers actively researches and reports the market value on a daily basis for individual securities. In one instance, the market quote from the dealer for a certain security stayed the same for 4½ months while the quote from the other dealer changed numerous times throughout the period.

The division clerk either averages the two quotes or arbitrarily picks the higher of the two quotes if the quotes differ greatly. In the above instance, the clerk used the market quote from the dealer whose market values did not change. This procedure makes it possible to distort the market value on a day-to-day basis.

Accounting System and Financial Statements

One person in the Investment Division presently prepares all STIP accounting transactions--including calculating unit values, buying or

selling units, and preparing SBAS entries. No one in the Investment Division supervises or verifies this person's calculations; consequently, numerous errors have accumulated in STIP, resulting in inaccurate unit value computations since the beginning of STIP. The division does not use a conventional double entry accounting system which provides checks and balances; instead, the division has devised a make-shift single entry system. Footnote 1 to the STIP financial statements (see page 101) discloses that an accounting error resulted in \$340,444 of undistributed earnings. This accounting error actually amounted to approximately \$134,500. The footnote accurately reports that normally distributed earnings were reinvested in the fund, resulting in a higher cost per unit of principal purchased rather than earnings purchased. Eventual sale of these units will return this higher cost to the purchaser, thus making it unnecessary to currently distribute the \$134,500. However, the STIP financial statements do not accurately show the effect of this error in the statement of condition or the statement of changes in net asset value.

An error in addition by the division in preparing the statement of changes in net asset value resulted in an overstatement of \$60,000 in units sold by participants. Also, the division's records do not present a basis for computation of the \$489,746 decrease in unrealized appreciation of investments shown in the statement of changes.

The accounting procedures established for STIP use a fiscal year ended May 31 basis for income distributions, while the financial statements are prepared using a fiscal year ended June 30. The Investment Division did not accurately convert STIP accounting data to the June 30 fiscal year while preparing the STIP financial statements. Thus, the

published statement of income and disbursements contains amounts that are on the May 31 fiscal year-end and the June 30 fiscal year-end.

Because of the inadequate STIP accounting system and the inaccurate unit values used by the division, the statement of condition does not accurately present income due participants and the net asset value of the Short-Term Investment Pool as of June 30, 1975. Accordingly, the financial statements do not present fairly the changes in net asset value for the fund for the year ended June 30, 1975.

The present STIP bookkeeping system provides little basis for preparation of periodic financial statements, which would normally disclose many errors. Consequently, we could not prepare financial statements which fairly present the condition of STIP as of June 30, 1975, the changes in net asset value, and the results of operations for fiscal year 1974-75. Because of the difficult hand calculations needed for day-to-day STIP transactions and the large dollar amounts involved, the Department of Administration must establish an adequate accounting system for STIP and provide for a review of all transactions entered in the system.

RECOMMENDATION

We recommend that the Department of Administration:

- 1. Require the use of at least two dealer quotes that represent fairly the market value of the STIP portfolio on a day-to-day basis.*
- 2. Establish a properly supervised double entry accounting system for STIP.*
- 3. Prepare financial statements which will fairly present the activity and condition of STIP.*

STIP EARNINGS REPORTED IN THE STATE'S FINANCIAL REPORT

The State of Montana's Financial Report 1974-75, shows \$48,587,552 as investment earnings on its comparative statement of receipts by classification (page vii) for fiscal year ended June 30, 1975. This amount is overstated by \$11.5 million because, as explained on page ii of the financial report, the Statewide Budgeting and Accounting System (SBAS) reported STIP earnings twice--first as interest earned by the pooled fund and again when distributed to the participants. This reporting practice presents information that could be confusing to the reader of the state's financial report. STIP investment income should be reported only once in the state's financial statements.

RECOMMENDATION

We recommend that the Department of Administration eliminate the double reporting of STIP earnings.

YIELDS

During our review of the yields shown for individual securities listed in the fiscal year 1974-75 Board of Investments' annual report, we noted numerous inaccurate yield figures. In many instances a security with the same cost and par value had an interest rate which differed from the yield reported. Also, in several cases, a security with a lower cost than par value had a yield figure lower than the interest rate. The Investment Division stated that most of the errors resulted from erroneous coding of the securities into PMS.

The division knew of these errors prior to the printing of the annual report, yet they did not correct the situation or footnote the annual report to disclose that it contained a significant number of

inaccurate individual yield figures. The annual report should present all information in a manner that is not misleading to the reader.

RECOMMENDATION

We recommend that the Department of Administration require the correction of yield errors in PMS and adequately review all information prior to presentation in the Board of Investments' annual report.

MARKET VALUES

Footnote 3 to the financial statements (see page 100) states that the Investment Division used two dealer quotes for market values of United States Government obligations, corporate and Canadian bonds. During our review of the market values, we noted that the division used only one dealer quote for approximately 80 percent of these securities. Many securities, when compared to another dealer quote, varied greatly, but the market values shown for the portfolios taken as a whole were not materially misstated. If the Department of Administration determines that only one dealer quote is needed to fairly present the portfolio's year-end market value, the market value presentation policy should be amended and accurately stated in the financial statement footnotes.

RECOMMENDATION

We recommend that the Department of Administration require adherence to established policy for the market value presentation of United States Government obligations, corporate and Canadian bonds.

FINANCIAL STATEMENT PRESENTATION

The funds managed by the Board of Investments are not owned by it; however, the board has the capability of selling any portion of the approximately \$538,313,000 assets under its control without prior approval by the investing agencies. The board has delegated this authority to the Investment Division of the Department of Administration, which operates as a separate entity from the agencies it invests for and prepares and signs original input data for the SBAS and PMS accounting systems. Because of the Investment Division's capabilities, investment program financial statements should report sufficient summary information for audit and reporting purposes.

As noted on page 17 the Department of Administration has the responsibility to determine the form of the Board of Investments' annual report and the responsibility to ensure that the information in the report is presented in a meaningful manner.

We reviewed investment reports published by other states with investment programs similar to the State of Montana's and determined that the Board of Investments' annual report is as good as or better than other comparable states' investment reports. However, several deficiencies exist in the fiscal year 1974-75 Board of Investments' annual report. These deficiencies, which include noncompliance with generally accepted accounting principles and generally accepted reporting standards, do not fully disclose the activities of the board. We note several of the deficiencies below:

1. Failure to adhere to the reported basis for computation of income. (See page 100.) As discussed on page 29 of this

report, income received in July 1975 was reported as fiscal year 1974-75 cash basis income.

2. Failure to disclose expenses incurred as charged against each fund's income in the statement of income. The "cash" column of the Board of Investments' fiscal year 1974-75 statement of income is net of expenses charged to investors. The board discloses the total amount of expenses in the fifth financial statement footnote. (See page 100.)
3. Failure to present results of operations in a meaningful fashion. The basis of accounting used by the board is contrary to generally accepted accounting principles. When cash basis principles for revenue accounting are mixed with accrual basis revenue accounting methods, the resulting information is of doubtful value. Additionally, the failure to recognize unrealized gains and losses in portfolio holdings limits the information available to the reader on which to judge the board's performance.
4. Failure to disclose the unamortized balance of deferred losses resulting from bond swaps and chargeable against future years' income.

The Department of Administration should prepare financial statements in accordance with generally accepted accounting principles and generally accepted reporting standards to correct the deficiencies noted above. These financial statements should include a statement of net assets for the state's investments; a statement of operations, including the interest and dividend earnings and the gains and losses from the

state's investment transactions; and a statement of changes in net assets which reports:

1. The amounts of income earned for investing agencies during the year; and
2. Additions to and withdrawals from investment funds under the board's control.

Without such financial statements, there is no reasonable basis for evaluation and determination of the accountability for the state's investment program. Because the financial statements did not present a statement of net assets for the state's investments at June 30, 1975, the annual report reader cannot determine that the board will amortize \$7,244,791 in deferred losses against future years' income. Similarly, the reader cannot clearly determine the effect on the state's investment program of the prior period cost adjustment offset against trust and legacy fund income over a 15 year period.

The state Treasurer reports a statement of cash position for the Treasurer's cash accountability account as of each fiscal year-end. This report includes all of the state's cash under the Treasurer's control. A similar report should be published for the state's investments under the board's control.

These financial statements, along with others described above, would provide a report reader a meaningful basis for the evaluation of the state's investment program.

We discussed this problem in our fiscal year 1973-74 audit report. The board did not concur with this recommendation but agreed that STIP financial statements should conform to standard reporting procedures. The accounting methods used by the Investment Division do not present

accounting information needed for preparing STIP financial statements in accordance with generally accepted reporting procedures (see page 21). However, when the Investment Division prepared STIP financial statements, they discovered errors which they had been making during the year.

The board apparently believes that showing year-end invested balances for each fund provides a meaningful summary of each fund's investment activity. However, the errors found and other problems encountered by the division in preparing STIP financial statements illustrate the need for preparing financial statements in accordance with generally accepted accounting principles and generally accepted reporting standards.

We have agreed to assist the Department of Administration in preparing investment program financial statements for fiscal year 1975-76, with the goal of improving public accountability for the program.

RECOMMENDATION

We recommend that the Department of Administration include in the Board of Investments' annual report, financial statements summarizing the investment program's year-end financial position, the results of the year's investment transactions and activities, and the changes in invested balances for each investing fund.

STATEMENT OF INVESTMENT INCOME

Basis of Accounting

During our examination of the statement of investment income published in the fiscal year 1974-75 Board of Investments' annual report (see page 97), we noted several errors and omissions in the computation of income for certain investors. The first financial note (see page 100) states that "The financial statements have been prepared on the

cash basis of accounting, except for the amortization of premiums and discounts ...;" however, the annual report included \$38,920 of earnings due before June 30, 1975, but received after that date in income for fiscal year 1974-75. Principles of the cash basis method of accounting do not allow this practice. This situation occurred because the Investment Division sold securities in June, and the state was no longer the owner of record as of June 30, 1975. However, the division did not receive the proceeds from the sale until July. The proceeds due the state should have been recorded as accounts receivable by the Investment Division at June 30. Since these proceeds were not entered into SBAS until July, these securities were reflected in the owner agencies' books as of June 30 but not in the board's records. This understated funds controlled by the board by \$69,056, the cost of the securities sold. Additionally, the division erroneously included in fiscal year 1974-75 \$5,509 of income reported in the previous year. As a result of these errors, the cash basis income for fiscal year 1974-75 is overstated by \$94,429.

Significant departures from the cash basis of accounting, (i.e., amortization of premiums and discounts and amortization of deferred losses on bond swaps) and their use in conjunction with the cash basis presents confusing financial statements. Only by using the accrual method of accounting can the Board of Investments report income actually earned by an investor during a given year. Additionally, accrual accounting discourages manipulation of reported income, which could occur when accounting principles relating to different bases of accounting are combined. The investment division should input investment income into SBAS on a cash basis, but the investment program should report on the accrual basis.

Since PMS prepares accounting records on an accrual basis, we used its records to determine that the Board of Investments earned approximately \$1,700,000 more income in fiscal year 1974 than was reported on the cash basis. The accrual of income would have a larger effect as of June 30, 1975 because the board controls a larger portfolio than at the previous year-end. If the financial statements were prepared on the accrual basis, the income for the year would have included this amount. The division would have reported interest due at year-end, but received after that date, as interest receivable.

PMS does not properly accrue interest on mortgages and certificates of deposit. Mortgage interest is not accrued because PMS has not been completely programmed for this security type. Earnings on certificates of deposit are not accurately accrued because Montana banks do not calculate interest earnings on a uniform basis.

The board has not established a uniform basis for calculation of interest paid on certificates of deposits. PMS uses a 360 day basis for calculation of interest due on securities of this type; however, Montana banks use many different methods to pay interest on certificates of deposit. Therefore, PMS cannot accurately calculate the accrued interest at the end of any accounting period. This situation forces the division to prepare entries to adjust its accounting records to reflect actual payments rather than computer calculated accruals.

We can determine no benefit derived by the state from this situation. Instead, the state incurs considerable administrative expenses in accounting for and checking interest earned as calculated by various banks. The board should determine if Montana banks would calculate interest in a uniform manner. Logically, this would be on a 360 day basis.

We recommend the accrual basis for reporting the results of the board's annual operations. STIP is already on the accrual basis. We do not recommend that information input into SBAS by the Investment Division change. State agencies recognize income on the cash basis now and should continue to do so.

RECOMMENDATION

We recommend that the Department of Administration adopt the accrual method of accounting for reporting the results of the board's operations in the investment program annual report.

TRUST AND LEGACY

We examined certain trust and legacy investment account transactions during our fiscal year 1973-74 audit and noted significant errors in application of accounting procedures relating to the distribution of income from the trust and legacy common school permanent fund, generally referred to as the common school fund.

On February 22, 1889, the Congress of the United States, by the Enabling Act, granted to the State of Montana, for common school support, sections 16 and 36 in every township within the state. Money received from the sale of these and additional lands granted for other educational and state institutions, constitutes the permanent portion of the common school fund.

The 1889 State of Montana Constitution, Article XXI, Section 3, stated in part: "The original amounts of all contributions for the ... state permanent school fund (common school fund) ..., shall be added to such funds respectively and become inseparable and inviolable parts

thereof." The 1972 State of Montana Constitution recognized the inviolability of the common school fund in Article X, Sections 3 and 10.

Prior Period Error

Prior to the creation of the Board of Investments in 1971, Section 79-1202, R.C.M. 1947, authorized the State Board of Land Commissioners, through the Department of State Lands and Investments, to invest trust and legacy funds subject to certain limitations. During the time the Department of State Lands administered the investment of the common school fund, they distributed principal of the fund by incorrectly adding to or offsetting against current income the total amount of any discounts or premiums on investments. Likewise, administrators added to or charged off against income any gains or losses realized from the sale of investments. A detailed review by the Board of Investments in fiscal year 1971-72 revealed that a total \$1,362,969 reduction of principal resulted from these incorrect accounting practices. Such a reduction of principal is contrary to the constitutional provision which established the common school fund.

The Board of Investments elected to amortize the \$1,362,969 reduction of principal over a 15 year period at the rate of \$90,865 per year. By charging the error off in this manner, the permanent fund principal would be restored without a serious effect on distributions to the school districts.

Prior to the adoption of Montana's present Constitution, the Montana Supreme Court served as a supervisory board over the administration of the trust and legacy fund. As part of its supervisory duties, the court issued advisory opinions concerning the administration of the trust and legacy fund. In its opinion entitled In Re Montana

Trust and Legacy Fund, 143 Mont. 218, 388 P. 2d 366 (1964), the court discussed the investment of public school funds, including restrictions thereon, and on page 225 stated:

"The question presented by these provisions is whether the announced rule of inviolability of the funds is an absolute prohibition against the incurrence of a short term diminution of principal (by selling securities at less than face value or purchasing at a premium). We conclude the answer is in the negative. Bearing in mind that the purpose of the funds is to help finance this state's educational institutions with income generated therefrom, we do not believe the framers of the Constitution intended to establish a rule which could, under some circumstances, defeat that purpose. There is no doubt but that the varying yield values of different securities render it prudent at times to take a temporary loss of principal in return for a greater realization of income (of course, the measurement of income yield must be made in light of necessity of allocating a portion thereof to restoration of lost principal). Therefore, we do not construe the word 'inviolable' as prohibiting the sale of securities at less than purchase price or face value or the purchase thereof at a premium, provided the income gain resulting from such transaction is partially used to restore the temporary loss of principal." (Emphasis added)

Montana's present Constitution, in Article VIII, Section 13, provides for the investment of state funds, including public school funds. Article X, Sections 3 and 10, provide respectively that public school funds shall remain "inviolable" and shall be "guaranteed by the state against loss of diversion." These constitutional provisions are virtually identical to those discussed in the Supreme Court opinion above; thus, the rationale of the court is applicable to the present situation. The court found that a temporary loss of principal would not be prohibited by the "inviolability" provisions of the constitution so long as the loss was temporary and the principal was restored from income earned.

The temporary, systematic method selected by the board will protect the inviolability of the fund and at the same time allow a current distribution of income over the entire period of repayment without causing large fluctuations in the amount distributed. This also will

carry out the purpose of investment of the funds as noted by the court, which is "to help finance this state's educational institutions with income generated therefrom."

Although the Board of Investments has been amortizing the principal reduction against reported income for trust and legacy funds since 1972, the Department of State Lands has not yet restored to principal any of the \$1,362,969 distributed from the permanent fund. Additional discussion of this problem follows.

Failure to Consider Premiums and Discounts in Current Distributions

Generally accepted accounting principles require recording an investment at cost and amortizing the related premium or discount against income over the life of the security. This method of accounting is also appropriate for calculating distributable income for the common school fund. As discussed below, the amortized portion of gains and losses on security swaps, accounted for by the Board of Investments under the deferral and amortization method, should also be charged against current year's income for distribution purposes.

Present Department of State Lands' policy requires only distribution of actual cash income received from investments. Premiums, discounts, and deferred gains and losses are not considered in the distribution. This policy could result in extreme fluctuations of distributable income as securities purchased at a discount mature. Under present accounting methods, the Department of State Lands will have to recognize the total amounts of discounts as income when the related securities mature. For the Department of State Lands to know when the proceeds of such discounts are received, the Investment Division will have to monitor the maturity of securities purchased at a discount

and notify Department of State Lands' personnel of each maturity. Otherwise, the discounts will be incorrectly added to the permanent fund.

Inclusion of the amortized portion of discounts and premiums in current year's income would prevent these fluctuations of income available for distribution. This distribution of annually amortized discounts may require using part of the permanent fund to create cash for the quarterly distribution to the schools. However, such a temporary disruption of principal is permissible, as noted in the court opinion above, provided that a portion of current income restores the lost principal.

Failure to Consider Deferred Gains and Losses in Current Distributions

The Forty-Second Legislative Assembly enacted Section 79-310, R.C.M. 1947, effective July 1, 1973, which allowed corporate bonds as legal investments for the trust and legacy fund. Previously, the fund could invest only in government securities which resulted in a portfolio of low yield securities. The new legislation enabled the Board of Investments to swap low yield government securities for high yield corporate bonds. A Board of Investments' security swap for the common school fund consists of selling a security at a loss and purchasing a new security yielding a higher current income, thereby fulfilling the objective of making more money available for distribution to the schools. A swap causes a temporary reduction of principal since it is made at a loss. This reduction in principal must be restored through future income from the new security.

In the case of In Re Montana Trust And Legacy Fund, supra, the court stated on page 226:

"While an affirmative interpretation of 'inviolable' (i.e., what does it mean as distinguished from what it does not mean) is not necessary here, we observe that it means at least that principal cannot for any reason be permanently impaired, such as by direct

application, in lieu of income, to educational purposes, or by diversion to non-educational purposes.

"We are mindful of the following sentence in Section 12, Article XI, Constitution of Montana:

" 'The interests of said invested funds (of the state educational institutions). . . shall be devoted to the maintenance and perpetuation of these respective institutions.'

"In our opinion, this mandate is satisfied whether the interest is devoted directly or indirectly to the maintenance and perpetuation of those institutions. In other words, we do not believe the constitutional requirement is violated by an allocation of some interest toward restoration of a temporary loss of principal when the over-all effect of the plan is to improve the income posture of the funds. Such allocation of income is certainly, in the long run, in the interest of maintaining and perpetuating the institutions for whose benefit the funds exist." (Emphasis added)

The court has recognized that a temporary loss of principal may improve the income posture of the fund in the long run. The court also recommended the restoration of the permanent fund by allocating part of the current income to principal. The court did not require the use of all current income. This rationale appears to fully carry out the constitutional and legislative intent of preserving the principal while distributing current income for immediate use.

The court did not establish any time period or repayment plan, but rather recognized as satisfactory the establishment of a systematic plan which would improve the income posture while maintaining and perpetuating the institutions for which the funds exist. The time period does not appear as crucial as the system used because of the perpetuality of the fund. Thus, if the system used guarantees repayment, such as replenishment over the life of the security with which the loss occurred, it would appear satisfactory. This method would appear reasonable since lost principal would be restored by the maturity date of the security involved in the loss transactions. Also, since this method would dis-

tribute the effect of the loss transaction over the life of the security, radical fluctuations in income distributions would be prevented.

Considering the amortization of premiums and discounts in distributable income would partially offset the amortization of losses incurred on security exchanges made to improve the income posture of the fund. The Board of Investments has adopted the deferral and amortization method of accounting for losses on bond swaps. This method charges against income a portion of these losses over the life of the security swapped out or acquired, whichever is shorter. However, the Department of State Lands has neither taken these amortized losses against income nor accounted for the losses on the "completed transaction" basis. Thus they have again used principal for distributions.

Failure to properly account for either the previous \$1,362,969 distribution of permanent funds or the losses incurred from security exchanges has resulted in overdistribution of approximately \$2,447,100 as shown in the following table. However, had the Department of State Lands distributed the current amortized portion of discounts and premiums as we recommend, the net overdistributions would have been only \$970,400.

<u>Fiscal Year</u>	<u>Over (Under) Distribution Due To Bond Swaps And Prior Period Error</u>	<u>Underdistribution Due to Amortization of Discounts</u>	<u>Net Over (Under) Distribution</u>
Prior Period Error	\$1,363,000		\$1,363,000
1971-72	(38,600)	\$ (300)	(38,900)
1972-73	63,100	(493,200)	(430,100)
1973-74	420,300	(400,300)	20,000
1974-75	639,300	(582,900)	56,400
Total	<u>\$2,447,100</u>	<u>\$(1,476,700)</u>	<u>\$ 970,400</u>

Amortizing premiums and discounts and amortizing losses on a consistent basis would correct calculations of distributable income from the fund. These procedures would also follow generally accepted accounting practices.

Information and Personnel Needed for Proper Distributions

The Investment Division assumed the accounting functions for trust and legacy fund investments in 1971. The division's accounting system has the capability of preparing monthly amortizations of premiums and discounts on securities. Additionally, the division maintains accounting records for the deferred gains and losses on a monthly basis.

The Department of State Lands uses the Statewide Budgeting and Accounting System (SBAS) for determining distributable income each quarter. However, the Investment Division places certain accounting entries relating to amortization of premiums, discounts, gains, and losses on bond swaps, and the restoration of previously distributed principal, into SBAS on an annual basis only.

Since 1971, when these year-end entries have been made, they have not been considered in the Department of State Lands' calculation of distributable income for the common school fund. Department of State Lands personnel did not understand the significance of the entries. At this time, if the Investment Division provided monthly data, the Department of State Lands would not have the personnel or the accounting system necessary to properly accumulate data on the fund's investments and calculate distributable income. At least as early as November 1971 the State Board of Land Commissioners was aware of errors it had made in distributing common school fund principal. Yet, the board has taken no action to correct the errors and comply with the constitution.

The Department of State Lands currently sends its calculation of quarterly distributable income to the state Treasurer's office which distributes the money to the common school funds. The Treasurer's office prepares the distribution from information received from the

Department of State Lands and from SBAS accounting records which are also available to the Department of State Lands. We could find no authority requiring or reason for the state Treasurer to distribute the common school income. Since the Department of State Lands initially receives the income for the Trust and Legacy Fund and is responsible for the accountability of the fund, it is logical that the department perform all functions relating to the administration of the fund, including calculating and distributing the quarterly income.

The Department of State Lands should request assistance from the Department of Administration to develop a system to provide adequate information to allow proper quarterly distributions. After an adequate accounting system has been designed, the Department of State Lands should request from the Investment Division monthly reports of amortization of premiums and discounts and information required on bond swaps and prior period adjustments. Investment Division records are the only source for this data. If the Investment Division cannot provide the data on a timely basis for calculation of quarterly distributions, the Department of State Lands should include estimates in their distributions and make proper adjustments in the subsequent quarter.

Proper calculations of distributable income from the trust and legacy fund are not simple. A professional accountant is needed to keep the records which form the basis of the calculation. If the Department of State Lands does not need a full time, professional accountant to perform this and its other accounting, they should seek part-time assistance from a professional accountant to assist in its record-keeping for the common school fund.

RECOMMENDATION

We recommend that the Department of State Lands:

- 1. Consider amortized portions of premiums and discounts in calculating quarterly distributable income.*
- 2. Replace overdistributed permanent funds by the amortization method proposed by the Board of Investments.*
- 3. Establish proper accounting for losses incurred on security exchanges.*
- 4. Request assistance from the Department of Administration in designing an adequate accounting system for determining proper distributable income.*
- 5. Request timely journal entries and necessary accounting data from the Investment Division to allow proper quarterly distributions.*
- 6. Seek assistance from a professional accountant in accumulating data which provides the basis for quarterly distributions.*
- 7. Prepare quarterly distributions currently prepared by the state Treasurer's office.*

PRIOR YEAR RECOMMENDATIONS

The Board of Investments has complied with 16 of the 21 recommendations made in the fiscal year 1973-74 audit report. The board concurred with, but has not implemented, three recommendations, and the board disagreed with two recommendations. We discuss below actions taken to date on the five recommendations which have not been implemented.

Recommendation: Take action to become as self-sufficient as possible in the use of PMS system to ensure the production of timely accounting and management information.

The problems being experienced with PMS currently are discussed on page 17 of this report.

Recommendation: Adopt the accrual basis of accounting.

The board concurred with this recommendation with the qualification that they would not be able to report on the accrual basis until fiscal year 1976. However, the board is re-evaluating their decision to adopt this recommendation. This recommendation occurs again on page 32 of this report.

Recommendation: Establish a plan for systematic review of mortgage files held by servicers.

The board did not agree with this recommendation; however, because we noted problems with mortgage servicing again in this audit, we address this problem on page 11 of this report.

Recommendation: Assume all mortgage accounting and collecting functions now performed by investing agencies.

We address mortgage servicing problems on page 11 of this report.

Recommendation: Include in their annual report financial statements summarizing the investment program's year-end financial position, the results of the year's investment transactions and activities, and the changes in invested balances for each investing fund.

This recommendation occurs again on page 29 of this report.

Final Comments

We have reviewed the comments and recommendations contained in this report with the members of the Board of Investments, the Director and Investment Officer of the Department of Administration and, where applicable, the State Treasurer and the Acting Commissioner of the Department of State Lands. The full texts of their responses to this report begin on page 103.

We wish to express our appreciation to these officials and their respective staffs for their cooperation and assistance during this audit.

FINANCIAL STATEMENTS

SHORT-TERM INVESTMENT POOL STATEMENT OF CONDITION

	Year Ended	
	June 30, 1974	June 30, 1975
Assets:		
Cash	\$ 216,941	\$ 4,553
Interest Receivable	1,777,446	1,381,791
Investments at Market, (Cost of \$84,992,245 and \$133,380,154 respectively.)	85,080,467	133,781,874
TOTAL ASSETS	\$ 87,074,854	\$135,168,218
Liabilities:		
Income Due Participants	\$ 601,288	\$ 813,850
Accrued Expenses	8,316	13,688
TOTAL LIABILITIES	\$ 609,604	\$ 827,538
NET ASSET VALUE	\$ 86,465,250	\$134,340,680

STATEMENT OF CHANGES IN NET ASSET VALUE FOR YEAR ENDED JUNE 30, 1975

NET ASSET VALUE - JUNE 30, 1974	\$ 86,465,250
<i>Add:</i>	
Units Purchased by Participants (65,235)	66,942,438
	<u>\$153,407,688</u>
<i>Deduct:</i>	
Units Sold by Participants (18,250)	\$ 18,577,262
Increase (Decrease) in Unrealized Appreciation of Investments	(489,746)
NET ASSET VALUE - JUNE 30, 1975	\$134,340,680

STATEMENT OF INCOME AND DISBURSEMENTS FOR YEAR ENDED JUNE 30, 1975

Interest Income	\$ 10,197,086
Earnings Purchased by Participants	949,867
Realized Profit on Sale of Investments	<u>63,108</u>
TOTAL INCOME	\$ 11,210,061
<i>Less:</i>	
Expenses	140,974
Undistributed Earnings	<u>340,444</u>
TOTAL DISTRIBUTION	\$ 10,728,643

DISTRIBUTION TO PARTICIPANTS

Distribution Date	Outstanding Units	Amount
Units Sold by Participants	18,250	\$ 534,445
November 29, 1974	105,364	5,197,606
May 30, 1975	116,308	<u>4,996,592</u>
TOTAL DISTRIBUTION		\$ 10,728,643

TREASURER'S FUND

CERTIFICATES OF DEPOSIT

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
First Citizens Bank—Billings	\$ 100	8.625	11-06-75	\$ 100,000	\$ 100,000	8.625
First Citizens Bank—Billings	100	8.625	11-18-75	100,000	100,000	8.625
Midland National Bank—Billings	500	7.000	02-27-76	500,000	500,000	7.000
Midland National Bank—Billings	500	7.250	04-08-76	500,000	500,000	7.250
Valley State Bank—Billings	300	6.750	08-29-75	300,000	300,000	6.750
Western Bank—Billings	200	8.250	01-05-76	200,000	200,000	8.250
Western State Bank—Billings	500	8.250	01-05-76	500,000	500,000	8.250
First National Bank—Bozeman	1,000	10.000	07-18-75	1,000,000	1,000,000	10.000
Montana National Bank—Bozeman	200	7.000	04-02-76	200,000	200,000	7.000
Montana National Bank—Browning	100	6.500	09-24-75	100,000	100,000	6.500
First Metals Bank—Butte	1,000	9.000	07-03-75	1,000,000	1,000,000	9.000
First Metals Bank—Butte	1,000	7.000	04-05-76	1,000,000	1,000,000	7.000
Montana National Bank—Butte	250	7.000	03-04-76	250,000	250,000	7.000
First National Bank—Ekalaka	100	7.000	03-19-76	100,000	100,000	7.000
First National Bank—Great Falls	500	7.250	04-08-76	500,000	500,000	7.250
First Westside National Bank—Great Falls	500	8.250	01-05-76	500,000	500,000	8.250
First Westside National Bank—Great Falls	200	7.000	03-19-76	200,000	200,000	7.000
First Westside National Bank—Great Falls	100	7.000	03-26-76	100,000	100,000	7.000
Montana Bank—Great Falls	100	8.250	11-14-75	100,000	100,000	8.250
Northwestern Bank—Great Falls	1,000	7.250	04-19-76	1,000,000	1,000,000	7.250
First National Bank—Havre	1,000	9.125	07-03-75	1,000,000	1,000,000	9.125
Bank of Montana—Helena	640	7.000	03-04-76	640,000	640,000	7.000
First Security Bank—Helena	1,000	8.250	12-10-75	1,000,000	1,000,000	8.250
First Security Bank—Helena	200	8.250	01-05-76	200,000	200,000	8.250
First Security Bank—Helena	600	7.000	02-27-76	600,000	600,000	7.000
First National Bank—Hinsdale	100	7.000	03-12-76	100,000	100,000	7.000
First National Bank—Hinsdale	100	7.000	03-26-76	100,000	100,000	7.000
Conrad National Bank—Kalispell	500	8.250	12-26-75	500,000	500,000	8.250
First National Bank—Kalispell	100	7.000	03-26-76	100,000	100,000	7.000
Southside National Bank—Missoula	300	7.250	04-12-76	300,000	300,000	7.250
Toole County Bank—Shelby	100	7.000	03-26-76	100,000	100,000	7.000
Sidney National Bank—Sidney	600	7.000	03-04-76	600,000	600,000	7.000
Montana Bank—Superior	100	7.000	02-27-76	100,000	100,000	7.000
First State Bank—Whitefish	100	7.000	02-27-76	100,000	100,000	7.000
TOTAL	\$ 13,690			\$ 13,690,000	\$ 13,690,000	

Exhibit B

**GOVERNMENT OBLIGATIONS
REPURCHASE AGREEMENTS**

First National City Bank—New York	\$ 15,000	5.625	07-01-75	\$ 15,000,000	\$ 15,000,000	5.625
Seattle First National Bank—Seattle	2,000	5.750	07-01-75	2,000,000	2,000,000	5.750
Seattle First National Bank—Seattle	13,500	5.500	07-01-75	13,500,000	13,500,000	5.500
TOTAL	\$ 30,500			\$ 30,500,000	\$ 30,500,000	

TREASURER'S FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
U.S. TREASURY						
U.S. Treasury Notes	\$ 1,000	5.750	05-15-76	\$ 1,000,871	\$ 991,200	5.750
U.S. Treasury Notes	1,000	6.000	11-15-78	1,000,000	957,500	6.000
U.S. Treasury Notes	2,000	6.000	11-15-78	2,004,722	1,915,000	6.000
U.S. Treasury Notes	1,000	6.000	11-15-78	1,000,948	957,500	6.000
TOTAL	\$ 5,000			\$ 5,006,541	\$ 4,821,200	
CORPORATE OBLIGATIONS						
BANKERS ACCEPTANCES						
First National Bank—Denver	\$ 2,500	0.000	07-24-75	\$ 2,489,917	\$ 2,489,917	6.050
TOTAL	\$ 2,500			\$ 2,489,917	\$ 2,489,917	
COMMERCIAL PAPER						
Baxter Labs	\$ 1,000	0.000	07-09-75	\$ 998,500	\$ 998,500	6.000
Seaway Pipeline	1,500	0.000	07-15-75	1,494,969	1,494,969	5.750
TOTAL	\$ 2,500			\$ 2,493,469	\$ 2,493,469	
SHORT TERM INVESTMENT POOL						
	\$ 100,673			\$ 100,673,165	\$ 100,673,165	
TOTAL INVESTMENTS	\$ 154,863			\$ 154,853,092	\$ 154,667,751	

SHORT TERM INVESTMENT POOL

CERTIFICATES OF DEPOSIT	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
First Security Bank—Anaconda	\$ 100	9.000	07-16-75	\$ 100,000	\$ 100,000	9.000
First Security Bank—Anaconda	300	9.000	10-17-75	300,000	300,000	9.000
Baker National Bank—Baker	200	9.000	07-16-75	200,000	200,000	9.000
Montana Bank—Belgrade	200	8.250	12-17-75	200,000	200,000	8.250
Montana Bank—Belgrade	200	7.000	06-03-76	200,000	200,000	7.000
First Citizens Bank—Billings	600	6.250	09-02-75	600,000	600,000	6.250
Midland National Bank—Billings	500	9.250	09-26-75	500,000	500,000	9.250
Valley State Bank—Billings	200	9.250	09-25-75	200,000	200,000	9.250
Western Bank—Billings	100	8.125	07-14-75	100,000	100,000	8.125
Western State Bank—Billings	300	6.500	11-12-75	300,000	300,000	6.500
First National Bank—Bozeman	1,000	9.750	09-19-75	1,000,000	1,000,000	9.750
First National Bank—Bozeman	1,000	7.000	05-24-76	1,000,000	1,000,000	7.000
Montana National Bank—Bozeman	450	9.750	09-05-75	450,000	450,000	9.750
Montana National Bank—Bozeman	300	7.250	04-27-76	300,000	300,000	7.250
Montana National Bank—Browning	300	8.750	07-01-75	300,000	300,000	8.750
First Metals Bank—Butte	1,000	6.750	12-01-75	1,000,000	1,000,000	6.750
Montana National Bank—Butte	150	9.750	09-05-75	150,000	150,000	9.750
Prudential Federal Savings & Loan—Butte	100	7.000	06-04-76	100,000	100,000	7.000
First Security Bank—Deer Lodge	100	9.750	09-12-75	100,000	100,000	9.750
First Security Bank—Deer Lodge	100	7.000	05-24-76	100,000	100,000	7.000
First National Bank—Ekalaka	100	7.250	04-27-76	100,000	100,000	7.250
First National Bank—Glasgow	350	8.250	12-23-75	350,000	350,000	8.250
First Security Bank—Glasgow	300	7.000	06-15-76	300,000	300,000	7.000
First Security Bank—Glasgow	200	7.000	06-18-76	200,000	200,000	7.000
First National Bank—Great Falls	1,000	7.250	04-09-76	1,000,000	1,000,000	7.250
First Westside National Bank—Great Falls	750	9.000	07-15-75	750,000	750,000	9.000
First Westside National Bank—Great Falls	200	7.250	04-19-76	200,000	200,000	7.250
First Westside National Bank—Great Falls	250	7.250	05-24-76	250,000	250,000	7.250
First Westside National Bank—Great Falls	500	7.250	06-09-76	500,000	500,000	7.250
Great Falls National Bank—Great Falls	1,000	8.000	07-14-75	1,000,000	1,000,000	8.000
Montana Bank—Great Falls	1,000	7.000	05-24-76	1,000,000	1,000,000	7.000
Northwestern Bank—Great Falls	425	9.500	07-03-75	425,000	425,000	9.500
Northwestern Bank—Great Falls	500	9.500	07-17-75	500,000	500,000	9.500
Northwestern Bank—Great Falls	200	9.250	10-03-75	200,000	200,000	9.250
Northwestern Bank—Great Falls	500	9.000	10-10-75	500,000	500,000	9.000
First National Bank—Havre	500	7.250	02-10-76	500,000	500,000	7.250
Bank of Montana—Helena	300	6.500	11-19-75	300,000	300,000	6.500
First National Bank—Helena	1,000	7.500	01-23-76	1,000,000	1,000,000	7.500
First Security Bank—Helena	100	7.750	01-14-76	100,000	100,000	7.750
Northwestern Bank—Helena	650	9.500	07-17-75	650,000	650,000	9.500
Northwestern Bank—Helena	2,500	9.000	10-15-75	2,500,000	2,500,000	9.000
First National Bank—Hinsdale	100	9.750	09-12-75	100,000	100,000	9.750

SHORT TERM INVESTMENT POOL

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
CERTIFICATES OF DEPOSIT						
First National Bank—Hinsdale	\$ 100	7.250	02-03-76	\$ 100,000	\$ 100,000	7.250
Conrad National Bank—Kalispell	1,000	9.750	09-19-75	1,000,000	1,000,000	9.750
Southside National Bank—Missoula	500	6.500	11-17-75	500,000	500,000	6.500
Southside National Bank—Missoula	500	7.000	03-19-76	500,000	500,000	7.000
Western Montana National Bank—Missoula	500	9.000	07-14-75	500,000	500,000	9.000
Western Montana National Bank—Missoula	1,000	9.750	09-19-75	1,000,000	1,000,000	9.750
Western Montana National Bank—Missoula	500	9.250	09-26-75	500,000	500,000	9.250
Western Montana National Bank—Missoula	1,000	6.750	12-01-75	1,000,000	1,000,000	6.750
Western Montana National Bank—Missoula	600	6.750	06-18-76	600,000	600,000	6.750
Richland National Bank—Sidney	600	9.000	07-15-75	600,000	600,000	9.000
Montana Bank of Mineral County—Superior	100	8.750	07-01-75	100,000	100,000	8.750
First National Bank—Twin Bridges	100	9.000	10-15-75	100,000	100,000	9.000
First National Bank—Wibaux	300	8.250	12-17-75	300,000	300,000	8.250
TOTAL	<u>\$ 26,425</u>			<u>\$ 26,425,000</u>	<u>\$ 26,425,000</u>	
GOVERNMENT OBLIGATIONS						
REPURCHASE AGREEMENTS						
First National City Bank—New York	\$ 8,840	5.625	07-01-75	\$ 8,840,000	\$ 8,840,000	5.625
TOTAL	<u>\$ 8,840</u>			<u>\$ 8,840,000</u>	<u>\$ 8,840,000</u>	
U.S. TREASURY						
U.S. Treasury Bonds	\$ 500	8.250	05-15-90	\$ 495,580	\$ 510,000	8.250
U.S. Treasury Bonds	500	8.250	05-15-90	495,758	510,000	8.250
TOTAL	<u>\$ 1,000</u>			<u>\$ 991,338</u>	<u>\$ 1,020,000</u>	
FEDERAL AGENCIES						
Federal Home Loan Banks	\$ 500	7.875	08-25-75	\$ 500,000	\$ 501,016	7.875
Federal Home Loan Banks	1,000	9.200	02-25-76	1,017,500	1,015,000	9.200
Federal Home Loan Banks	3,000	9.150	11-25-77	3,000,000	3,116,250	9.150
Federal Home Loan Banks	500	7.600	05-25-78	500,000	502,500	7.600
Federal Home Loan Banks	3,000	9.100	11-27-78	3,000,000	3,142,500	9.100
Federal Home Loan Banks	1,000	8.750	05-25-79	1,000,000	1,030,000	8.750
Federal Home Loan Banks	1,000	8.750	05-25-84	1,000,000	1,041,250	8.750
Federal Land Banks	1,000	8.250	04-20-77	1,000,000	1,017,500	8.250
Federal Land Banks	1,000	8.250	04-20-77	1,010,000	1,017,500	8.250
Federal Land Banks	1,000	9.150	07-20-78	1,000,000	1,045,000	9.150
Federal Land Banks	1,000	7.100	01-22-79	999,375	983,750	7.100
Federal Land Banks	1,000	9.100	07-20-81	1,000,000	1,055,625	9.100
Federal National Mortgage Assn.	1,000	9.800	06-11-79	1,000,000	1,064,375	9.800
Federal National Mortgage Assn.	1,000	9.700	09-10-81	1,000,000	1,077,500	9.700

SHORT TERM INVESTMENT POOL

FEDERAL AGENCIES

Federal National Mortgage Assn.
Federal National Mortgage Assn.

TOTAL

CANADIAN OBLIGATIONS

British Columbia Hydro Electric
Province of Ontario
Province of Quebec
Quebec Hydro Electric
Quebec Hydro Electric
Quebec Hydro Electric

TOTAL

CORPORATE OBLIGATIONS

BANKERS ACCEPTANCES

Bank of America—New York
Chemical Bank—Chicago
Chemical Bank—New York
Chemical Bank—New York
Chemical Bank—New York
Chemical Bank—New York
Crocker National Bank—San Francisco
First National City Bank—Los Angeles
First National City Bank—Los Angeles
First National Bank—Minneapolis
First National City Bank—New York
First National City Bank—New York
First National City Bank—New York
First National City Bank—New York
First National City Bank—New York
First National City Bank—New York
First National City Bank—New York
First National City Bank—San Francisco
Morgan Guaranty Trust
Raimier National Bank—Seattle
United Bank of California—Los Angeles

TOTAL

COMMERCIAL PAPER

Channelview Construction Trust
Crocker National Corp.

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
	\$ 1,250	7.300	12-10-81	\$ 1,250,000	\$ 1,214,648	7.300
	1,000	7.350	12-10-82	1,000,000	966,875	7.350
	<u>\$ 19,250</u>			<u>\$ 19,276,875</u>	<u>\$ 19,791,289</u>	
	\$ 500	10.250	10-01-99	\$ 500,000	\$ 522,500	10.250
	900	8.600	03-15-04	900,000	831,938	8.600
	1,000	9.200	04-15-04	1,000,000	943,125	9.200
	1,000	7.500	01-01-03	915,000	819,375	8.280
	1,000	8.250	01-01-04	995,000	878,125	8.300
	<u>500</u>	<u>10.250</u>	<u>01-15-05</u>	<u>500,000</u>	<u>516,875</u>	<u>10.250</u>
	<u>\$ 4,900</u>			<u>\$ 4,810,000</u>	<u>\$ 4,511,938</u>	
	\$ 3,000	0.000	08-11-75	\$ 2,932,392	\$ 2,980,050	6.100
	2,500	0.000	07-09-75	2,489,875	2,496,438	5.400
	892	0.000	07-07-75	860,661	891,373	7.350
	1,185	0.000	07-14-75	1,150,404	1,182,623	6.300
	1,326	0.000	10-28-75	1,289,124	1,300,397	6.000
	900	0.000	11-03-75	873,683	881,100	6.050
	1,000	0.000	07-24-75	985,936	996,200	6.100
	1,000	0.000	08-15-75	986,896	992,717	5.550
	700	0.000	10-31-75	679,836	685,650	6.100
	1,500	0.000	07-16-75	1,490,146	1,496,200	5.500
	1,290	0.000	07-07-75	1,241,052	1,288,528	7.625
	5,000	0.000	07-07-75	4,986,014	4,994,458	5.300
	4,000	0.000	07-11-75	3,990,067	3,993,033	6.000
	3,500	0.000	07-28-75	3,478,563	3,484,483	5.250
	1,000	0.000	08-04-75	985,802	994,458	5.875
	5,000	0.000	08-14-75	4,959,847	4,964,375	5.900
	3,500	0.000	08-15-75	3,471,417	3,474,508	6.000
	1,500	0.000	07-31-75	1,490,146	1,492,638	5.500
	2,424	0.000	07-16-75	2,414,604	2,418,192	5.351
	1,000	0.000	08-14-75	986,542	992,875	5.700
	<u>1,000</u>	<u>0.000</u>	<u>07-21-75</u>	<u>974,414</u>	<u>996,675</u>	<u>6.100</u>
	<u>\$ 43,217</u>			<u>\$ 42,718,021</u>	<u>\$ 42,996,971</u>	
	\$ 2,500	0.000	07-15-75	\$ 2,486,500	\$ 2,494,010	5.400
	1,500	0.000	07-08-75	1,497,135	1,498,083	6.250

SHORT TERM INVESTMENT POOL

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
COMMERCIAL PAPER						
Dow Chemical	\$ 2,000	0.000	07-07-75	\$ 1,993,875	\$ 1,997,764	5.250
First Bank Systems	1,175	0.000	07-15-75	1,167,950	1,172,185	5.400
First Bank Systems	2,000	0.000	07-21-75	1,989,375	1,993,292	5.625
First National City Corp.	2,500	0.000	07-16-75	2,488,646	2,493,611	5.450
Olympic Pipeline	2,550	0.000	08-05-75	2,528,183	2,534,700	5.500
Texaco	2,000	0.000	07-29-75	1,985,708	1,990,736	5.250
Travelers Insurance	2,000	0.000	07-03-75	1,995,800	1,999,042	5.400
TOTAL	<u>\$ 18,225</u>			<u>\$ 18,133,172</u>	<u>\$ 18,173,423</u>	
FINANCIAL						
Commercial Credit	\$ 1,000	8.000	01-15-81	\$ 1,000,000	\$ 970,625	8.000
Ford Motor Credit	500	10.500	10-01-94	500,000	521,250	10.500
General Electric Credit	1,000	8.650	01-15-84	1,000,000	1,008,125	8.650
Mellon National Bank	1,000	7.800	03-01-82	1,000,000	953,750	7.800
Sears & Roebuck Acceptance	1,000	8.375	12-31-86	998,000	996,875	8.375
TOTAL	<u>\$ 4,500</u>			<u>\$ 4,498,000</u>	<u>\$ 4,450,625</u>	
INDUSTRIAL						
Dresser Industrial	\$ 1,000	8.650	05-15-85	\$ 1,000,000	\$ 1,003,125	8.650
General Foods	700	7.500	03-01-84	696,500	686,000	7.570
General Motors	1,000	8.050	04-01-85	1,000,000	1,001,250	8.050
Procter & Gamble	1,000	8.250	03-01-05	991,250	980,625	8.250
RCA	1,000	10.200	08-15-92	1,000,000	1,022,500	10.200
Revlon	1,000	8.450	05-01-85	1,000,000	992,500	8.450
TOTAL	<u>\$ 5,700</u>			<u>\$ 5,687,750</u>	<u>\$ 5,686,000</u>	
TRANSPORTATION						
Mobil Alaska Pipeline	\$ 500	8.450	03-01-05	\$ 500,000	\$ 490,313	8.450
TOTAL	<u>\$ 500</u>			<u>\$ 500,000</u>	<u>\$ 490,313</u>	
PUBLIC UTILITIES						
Public Service Electric & Gas	\$ 1,000	8.500	03-01-04	\$ 1,000,000	\$ 869,375	8.500
Public Service Electric & Gas	500	12.000	10-01-04	500,000	530,000	12.000
TOTAL	<u>\$ 1,500</u>			<u>\$ 1,500,000</u>	<u>\$ 1,399,375</u>	
TOTAL INVESTMENTS	<u>\$ 134,057</u>			<u>\$ 133,380,156</u>	<u>\$ 133,784,934</u>	

PUBLIC EMPLOYEES' RETIREMENT SYSTEM FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
MONTANA OBLIGATIONS						
ESC Building Revenue	\$ 797	8.000	06-01-86	\$ 797,421	\$ 797,421	8.00
ESC Building Revenue	457	8.000	06-01-88	457,234	457,234	8.00
TOTAL	<u>\$ 1,254</u>			<u>\$ 1,254,655</u>	<u>\$ 1,254,655</u>	
GOVERNMENT OBLIGATIONS						
FEDERAL AGENCIES						
Farmers Home Administration	\$ 142	8.750	12-09-94	\$ 142,437	\$ 142,437	8.750
Farmers Home Administration	424	8.750	12-26-94	423,693	423,693	8.750
Farmers Home Administration	221	8.750	03-27-95	221,276	221,276	8.750
Farmers Home Administration	689	8.750	05-04-95	688,847	688,847	8.750
International Bank for Reconstruction	500	8.125	08-01-96	500,000	472,500	8.125
Martin Luther Tower	56	5.150	05-01-06	51,788	51,649	5.717
Mutual Mortgage General Insurance Fund	130	4.125	12-01-85	124,303	123,760	4.695
TOTAL	<u>\$ 2,162</u>			<u>\$ 2,152,344</u>	<u>\$ 2,124,162</u>	
U.S. GOVERNMENT GUARANTEED						
Whitney Steamship	\$ 500	9.300	04-29-00	\$ 500,000	\$ 500,000	9.300
TOTAL	<u>\$ 500</u>			<u>\$ 500,000</u>	<u>\$ 500,000</u>	
CANADIAN OBLIGATIONS						
British Columbia Hydro & Power	\$ 500	9.625	06-01-05	\$ 498,753	\$ 505,000	9.625
Canadian Pacific	500	10.125	07-02-90	500,000	500,000	10.125
Manitoba Hydro Electric	500	9.250	06-15-04	498,792	482,500	9.270
Manitoba Hydro Electric	500	9.375	12-01-04	481,599	488,750	9.375
Quebec Hydro Electric	500	10.700	08-01-99	500,000	542,500	10.700
Quebec Hydro Electric	600	8.500	08-01-03	597,190	535,500	8.550
Quebec Hydro Electric	500	8.500	08-01-03	490,040	446,250	8.700
Quebec Hydro Electric	1,000	8.250	01-01-04	995,226	443,750	8.295
TOTAL	<u>\$ 4,600</u>			<u>\$ 4,561,600</u>	<u>\$ 3,944,250</u>	
CORPORATE OBLIGATIONS						
COMMERCIAL PAPER						
General Motors Acceptance	\$ 1,500	0.000	07-15-75	\$ 1,495,078	\$ 1,495,078	5.625
General Motors Acceptance	600	0.000	07-22-75	597,500	597,500	6.000
B. F. Goodrich	2,000	0.000	07-14-75	1,994,333	1,994,333	6.000
TOTAL	<u>\$ 4,100</u>			<u>\$ 4,086,911</u>	<u>\$ 4,086,911</u>	
FINANCIAL						
Avco Financial Services	\$ 250	7.875	05-01-92	\$ 247,878	\$ 203,750	7.976

PUBLIC EMPLOYEES' RETIREMENT SYSTEM FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
FINANCIAL						
Avco Financial Services	\$ 500	7.625	12-01-97	\$ 500,000	\$ 389,400	7.625
Chrysler Financial	500	7.000	08-15-79	491,726	372,500	7.510
Commercial Credit	500	7.750	02-15-92	495,764	392,850	7.851
Commercial Credit	500	8.000	01-15-81	500,000	458,150	8.000
Dominion Bank Shares	300	7.750	11-15-96	300,000	300,000	7.750
First Bank Systems	200	6.750	09-15-79	200,000	180,760	6.750
First National Bank—Arizona	500	7.700	04-01-97	498,902	421,250	7.722
Ford Motor Credit	500	7.250	05-01-79	499,197	485,650	7.150
Ford Motor Credit	500	7.250	05-01-79	501,928	485,650	7.300
General Electric Credit	500	8.875	06-01-82	500,000	510,650	8.875
Walter E. Heller	500	7.750	04-01-92	496,820	426,900	7.825
Honeywell Finance	500	8.200	12-15-98	500,000	400,350	8.200
Honeywell Finance	500	9.650	11-01-81	500,000	501,900	9.650
Household Finance	150	7.750	10-01-99	150,000	129,945	7.750
Industrial National Corp.	500	7.400	07-01-81	500,000	473,150	7.400
International Harvester Credit	500	9.000	06-15-04	496,137	482,550	9.080
International Harvester Credit	500	8.625	08-01-91	500,000	436,550	8.625
International Harvester Credit	500	7.500	01-15-94	497,791	395,450	7.550
J. P. Morgan & Co. CV	150	4.750	11-01-98	150,000	150,000	4.750
Northwest Bankcorporation	500	7.750	03-15-03	500,000	430,000	7.750
J. C. Penney Financial	300	7.875	09-15-91	298,761	264,000	7.925
Transamerica Financial	500	7.875	11-01-91	496,896	393,750	7.951
TOTAL	<u>\$ 9,850</u>			<u>\$ 9,821,800</u>	<u>\$ 8,685,155</u>	
INDUSTRIAL						
Allied Chemical	\$ 500	7.875	09-01-96	\$ 496,761	\$ 455,000	7.914
Atlantic Richfield	315	7.750	12-15-03	315,000	286,682	7.750
Berkshire Hathaway	500	8.000	03-01-93	500,000	500,000	8.000
Caterpillar Tractor	400	8.600	05-01-99	400,000	398,000	8.600
Central Soya	250	7.500	08-01-97	249,447	219,700	7.520
Countrywide Stations	483	7.750	12-01-01	483,000	421,950	7.750
Crown Zellerbach	984	8.125	05-01-94	984,043	925,000	8.125
Dresser Industries	500	8.650	05-15-85	500,000	498,750	8.650
Georgia Pacific CV	100	6.250	05-15-00	100,000	112,000	6.250
Halliburton	500	9.250	04-01-00	497,523	511,250	9.125
Hercules CV	200	6.500	06-30-99	200,000	218,000	6.500
Ingersoll Rand	500	8.750	05-01-85	498,525	507,500	8.750
Kewanee Oil	400	7.625	05-15-97	400,000	332,920	7.625
MGIC Investment Corp. CV	55	5.000	12-15-93	55,000	30,800	5.000
Nabisco	350	7.750	11-01-03	348,345	320,250	7.750
RCA	600	10.200	08-15-92	600,000	615,000	10.200
Shell Oil	500	8.750	05-15-05	496,261	500,000	8.750

PUBLIC EMPLOYEES' RETIREMENT SYSTEM FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
INDUSTRIAL						
Standard Oil—California	\$ 333	7.500	01-01-99	\$ 333,335	\$ 292,834	7.500
Systems Building	769	8.000	07-01-97	768,821	768,821	8.000
Union Oil Co.—California	500	7.500	01-01-98	500,000	500,000	7.500
TOTAL	\$ 8,739			\$ 8,726,061	\$ 8,414,457	
TRANSPORTATION						
Atchison, Topeka & Santa Fe	\$ 1,011	8.625	09-19-89	\$ 1,010,855	\$ 975,879	8.625
Burlington Northern	500	7.375	12-01-86	498,196	444,350	7.431
Burlington Northern	500	8.600	01-15-99	500,000	451,450	8.600
Calif. & Hawaiian Sugar	479	8.250	08-24-93	479,119	472,263	8.250
Colonial Pipeline	486	7.875	06-01-02	486,000	466,674	7.875
Great Northern	135	4.125	03-01-77	134,576	127,778	4.349
Great Northern	300	4.125	02-01-78	278,907	274,410	7.400
Lakehead Pipeline	200	7.600	06-15-97	200,000	156,900	7.600
Michigan Wisconsin Pipeline	300	7.625	10-01-92	298,056	252,750	7.699
Norfolk & Western	25	3.875	01-01-78	23,856	22,793	6.055
Northern Pacific	75	4.125	01-09-76	74,914	73,755	4.364
Northern Pacific	100	4.125	01-09-77	99,626	95,070	4.399
St. Louis Southwestern	400	7.125	02-01-78	401,064	389,680	7.000
Socal Vessel 1730	333	7.500	01-01-99	333,335	333,335	7.500
Trailer Train	500	8.750	04-01-89	500,000	500,000	8.750
Trailer Train	483	11.250	07-15-89	483,292	483,292	11.250
Union Pacific	500	8.600	05-01-83	500,000	500,000	8.600
TOTAL	\$ 6,327			\$ 6,301,796	\$ 6,020,379	
PUBLIC UTILITIES						
American Tel. & Tel.	\$ 100	2.750	08-01-80	\$ 94,514	\$ 80,390	4.369
American Tel. & Tel.	400	5.625	08-01-95	402,005	290,680	5.579
American Tel. & Tel.	100	5.625	08-01-95	100,501	72,670	5.582
American Tel. & Tel.	225	5.625	08-01-95	192,011	163,508	7.124
American Tel. & Tel.	150	4.375	10-01-96	149,564	90,405	4.397
American Tel. & Tel.	100	4.750	06-01-98	105,132	62,920	4.371
American Tel. & Tel.	400	4.375	05-01-99	402,473	235,240	4.330
American Tel. & Tel.	31	4.375	05-01-99	30,942	18,231	4.388
American Tel. & Tel.	65	4.375	05-01-99	64,618	38,227	4.417
American Tel. & Tel.	400	8.700	12-01-02	400,000	400,000	8.700
Arizona Public Service	700	7.450	03-15-02	700,000	531,930	7.450
Arkansas Louisiana Gas	200	4.375	04-01-83	199,120	153,000	4.452
Atlantic City Electric	225	4.375	03-01-93	226,332	129,668	4.323
Baltimore Gas & Electric	200	4.500	07-15-94	201,729	119,500	4.426
Bell Tel.—Pennsylvania	200	6.750	05-01-08	200,000	157,000	6.750

PUBLIC EMPLOYEES' RETIREMENT SYSTEM FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
PUBLIC UTILITIES						
Bell Tel.—Pennsylvania	\$ 250	8.000	08-01-09	\$ 262,005	\$ 228,450	7.578
Bell Tel.—Pennsylvania	500	8.625	07-01-06	529,023	476,550	8.075
Boston Edison	23	3.000	08-01-84	20,599	13,427	4.325
Boston Edison	143	4.625	06-01-87	128,532	87,773	6.066
Boston Edison	350	4.750	11-01-95	353,523	182,875	4.669
Carolina Power & Light	50	6.875	10-01-98	46,829	34,940	7.500
Central Illinois Light	125	9.125	08-01-00	129,673	117,813	8.721
Central Illinois Public Service	115	4.500	05-01-94	115,984	69,863	4.427
Central Tel.	500	7.600	10-01-97	500,000	420,650	7.600
Chesapeake & Potomac Tel.—Maryland	60	4.125	12-01-93	48,725	35,328	6.039
Chesapeake & Potomac Tel.—Maryland	615	6.625	10-01-08	616,928	476,625	6.599
Chesapeake & Potomac Tel.—Virginia	200	5.250	05-01-05	202,570	127,760	5.159
Chesapeake & Potomac Tel.—Virginia	250	5.625	03-01-07	253,699	167,825	5.518
Chesapeake & Potomac Tel.—Virginia	700	5.625	03-01-07	583,280	469,910	7.039
Chesapeake & Potomac Tel.—Virginia	265	6.750	05-01-08	265,564	208,025	6.731
Chesapeake & Potomac Tel.—Virginia	500	8.750	03-01-10	493,147	486,650	8.887
Chesapeake & Potomac Tel.—Washington, D.C.	100	4.375	02-01-98	99,620	57,630	4.403
Chesapeake & Potomac Tel.—West Virginia	400	7.250	05-01-09	402,363	331,000	7.199
Cincinnati Bell Tel.	500	7.375	08-01-11	498,529	421,250	7.400
Cincinnati Gas & Electric	200	7.375	05-01-99	201,276	167,500	7.312
Cleveland Electric	100	2.750	09-01-85	86,085	120,760	4.359
Cleveland Electric	140	7.125	01-15-90	141,432	117,250	6.998
Commonwealth Edison	85	4.250	03-01-87	84,575	58,123	4.318
Commonwealth Edison	215	4.250	03-01-87	188,504	147,017	5.908
Commonwealth Edison	100	4.625	03-01-90	101,727	66,500	4.459
Commonwealth Edison	100	4.625	03-01-90	101,718	66,500	4.437
Connecticut Light & Power	212	6.875	10-01-98	210,353	157,410	6.949
Connecticut Light & Power	270	6.875	10-01-98	266,789	200,475	6.988
Connecticut Yankee Atomic Power	200	4.500	01-01-93	201,451	119,000	4.437
Consolidated Edison—New York	250	7.900	04-15-02	250,000	173,325	7.900
Consolidated Edison—New York	200	7.900	04-15-02	197,302	138,660	8.056
Consolidated Edison—New York	200	7.900	04-15-02	196,852	138,660	8.033
Consolidated Edison—New York	250	7.900	04-15-02	247,190	173,325	8.011
Consumers Power	40	4.625	08-01-89	40,829	21,800	4.334
Consumers Power	50	6.875	05-01-98	50,298	32,750	6.815
Consumers Power	300	11.375	08-01-94	300,000	284,250	11.375
Dayton Power & Light	500	8.125	08-01-01	498,889	416,250	8.147
Dayton Power & Light	500	8.000	11-01-03	500,000	408,150	8.000
Delaware Power & Light	200	4.625	10-01-94	203,128	115,260	4.494
Detroit Edison	665	9.000	12-01-99	726,504	527,013	8.046
Detroit Edison	500	9.875	05-01-04	488,545	422,500	10.130
Diamond State Tel.	100	4.625	09-01-05	100,226	56,880	4.610

PUBLIC EMPLOYEES' RETIREMENT SYSTEM FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
PUBLIC UTILITIES						
Duke Power	\$ 200	4.500	02-01-92	\$ 202,830	\$ 118,000	4.367
Duke Power	200	5.375	04-01-97	201,185	124,760	5.324
Duke Power	175	6.375	02-01-98	176,092	124,478	6.318
Duquesne Light	300	7.000	01-01-99	298,731	235,890	7.040
Duquesne Light	245	7.750	07-01-99	247,671	208,250	7.642
Duquesne Light	350	8.750	03-01-00	350,000	322,455	8.750
Equitable Gas	486	8.000	06-15-97	486,000	490,482	8.000
Florida Power & Light	250	4.625	04-01-94	255,000	145,950	4.457
Florida Power & Light	300	7.750	09-01-01	304,693	246,390	7.599
Florida Power Corp.	200	9.000	11-01-00	205,715	178,500	8.692
General Tel.—Midwest	500	7.625	01-01-03	500,000	405,650	7.625
General Tel.—Southwest	300	7.500	10-01-02	296,790	241,800	7.600
Georgia Power	300	7.375	03-01-01	294,018	208,140	7.565
Georgia Power	500	7.500	12-01-02	500,000	349,300	7.500
Gulf States Utilities	250	6.750	10-01-98	236,714	197,825	7.266
Houston Lighting & Power	50	6.750	11-01-97	50,670	39,940	6.623
Idaho Power	100	4.500	10-15-88	100,776	65,000	4.415
Idaho Power	100	4.500	11-01-91	101,335	61,130	4.375
Illinois Bell Tel.	35	4.250	03-01-88	30,356	23,496	6.015
Indiana Michigan Electric	215	4.375	08-01-93	215,178	108,038	4.367
Indiana Bell Tel.	450	4.375	06-01-03	451,707	247,500	4.348
Indiana Bell Tel.	200	5.500	04-01-07	201,407	131,260	5.449
Iowa Public Service	200	7.375	06-01-02	195,501	160,760	7.588
Jersey Central Power & Light	500	8.000	11-01-01	505,562	380,650	7.890
Kansas City Power & Light	225	5.750	05-15-97	225,681	159,750	5.723
Kansas City Power & Light	200	6.750	04-01-98	201,836	158,500	6.662
Kansas City Power & Light	260	7.125	02-01-99	261,501	214,188	7.069
Kentucky Power	500	5.125	01-01-96	360,511	295,000	7.674
Lone Star Gas	500	7.500	12-01-96	498,919	406,250	7.522
Louisville Gas & Electric	45	2.750	11-01-79	41,913	36,675	4.263
Michigan Bell Tel.	175	6.375	02-01-05	176,194	131,915	6.319
Michigan Bell Tel.	450	6.375	02-01-05	447,573	339,210	6.419
Michigan Consolidated Gas	30	4.500	03-15-88	30,434	19,350	4.338
Minneapolis Gas	200	7.875	12-01-96	200,000	167,500	7.875
Mississippi Power & Light	500	7.750	05-01-02	500,000	407,500	7.750
Montana Power	20	4.500	04-01-89	20,246	13,250	4.415
Montana Power	221	4.500	04-01-89	222,748	146,143	4.415
Montana Power	400	7.500	04-01-01	400,000	340,160	7.500
Montana Power	500	8.625	03-01-04	501,279	474,400	8.600
Mountain States Tel. & Tel.	100	4.375	02-01-88	99,558	68,250	5.996
Mountain States Tel. & Tel.	100	4.375	02-01-88	98,046	68,250	4.602
Mountain States Tel. & Tel.	100	4.375	02-01-88	87,882	68,250	4.426

PUBLIC EMPLOYEES' RETIREMENT SYSTEM FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
PUBLIC UTILITIES						
Mountain States Tel. & Tel.	\$ 200	5.000	04-01-00	\$ 206,868	\$ 126,000	4.746
Mountain States Tel. & Tel.	100	5.500	06-01-05	100,691	66,630	5.449
Mountain States Tel. & Tel.	300	6.000	08-01-07	300,000	213,750	6.000
Mountain States Tel. & Tel.	200	6.000	08-01-07	200,000	142,500	5.950
Mountain States Tel. & Tel.	160	6.000	08-01-07	153,703	114,000	6.309
Mountain States Tel. & Tel.	80	9.000	11-01-10	80,000	79,800	9.000
Mountain States Tel. & Tel.	500	9.750	08-01-12	496,581	527,500	9.820
Mountain States Tel. & Tel.	100	4.625	04-01-96	102,129	59,500	4.467
New England Tel. & Tel.	200	6.125	10-01-06	201,702	144,260	6.059
New England Tel.	350	6.125	10-01-06	350,000	252,455	6.125
New Jersey Bell Tel.	150	5.875	12-01-06	151,765	105,570	5.786
New Jersey Bell Tel.	300	6.625	04-01-08	301,365	232,890	6.536
New Jersey Bell Tel.	200	9.350	06-01-10	200,000	203,700	9.350
New Jersey Bell Tel.	1,040	7.250	04-01-11	1,016,142	804,552	7.447
New York State Electric & Gas	100	5.625	01-01-97	82,853	64,630	7.357
New York Tel.	176	4.500	05-15-91	153,107	112,869	5.969
New York Tel.	800	4.500	05-15-91	627,493	513,040	6.950
New York Tel.	69	4.125	07-01-93	56,594	40,365	5.988
New York Tel.	150	4.625	10-01-97	152,114	90,000	4.516
New York Tel.	100	4.625	10-01-97	85,115	60,000	5.996
New York Tel.	65	4.625	01-01-02	65,976	37,622	4.521
New York Tel.	470	4.625	01-01-04	476,679	476,909	4.529
New York Tel.	450	4.875	01-01-06	453,804	453,915	4.818
New York Tel.	171	4.875	01-01-06	147,447	101,112	5.983
New York Tel.	250	7.500	03-01-09	253,601	210,950	7.374
New York Tel.	300	8.000	07-15-08	314,503	271,350	8.130
North Electric	500	8.625	09-01-96	500,000	440,100	8.625
Northern Illinois Gas	200	7.625	07-01-97	200,486	174,500	7.600
Northern Indiana Public Service	150	4.625	05-15-95	152,320	93,150	4.499
Northern States Power	250	4.500	08-01-94	252,274	151,250	4.423
Northwestern Bell Tel.	150	4.375	05-01-89	130,820	99,570	5.974
Northwestern Bell Tel.	175	4.375	03-01-03	177,494	97,790	4.283
Northwestern Bell Tel.	500	6.250	01-01-07	497,817	370,650	6.284
Northwestern Bell Tel.	150	7.000	01-01-09	150,000	120,945	7.000
Northwestern Bell Tel.	200	7.000	01-01-09	199,789	161,260	7.009
Northwestern Bell Tel.	300	7.875	01-01-11	313,769	271,140	7.479
Ohio Bell Tel.	200	5.000	02-01-06	201,694	122,500	4.942
Ohio Bell Tel.	325	5.375	03-01-07	325,000	212,063	5.375
Ohio Bell Tel.	395	6.750	07-01-08	396,770	310,075	6.713
Ohio Bell Tel.	100	8.750	01-01-10	100,228	97,350	8.727
Ohio Edison	50	4.500	04-01-89	50,468	33,125	4.400
Ohio Edison	300	8.250	09-01-99	305,176	274,140	8.071

PUBLIC EMPLOYEES' RETIREMENT SYSTEM FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
PUBLIC UTILITIES						
Ohio Edison	\$ 250	9.250	05-01-00	\$ 250,550	\$ 247,000	9.225
Pacific Gas & Electric	100	4.500	06-01-96	100,537	63,990	4.410
Pacific Gas & Electric	100	4.500	06-01-96	101,126	63,990	4.455
Pacific Gas & Electric	100	5.500	06-01-99	82,118	67,880	7.201
Pacific Gas & Electric	380	8.000	06-01-03	400,425	343,482	7.502
Pacific Northwest Bell Tel.	140	4.500	11-01-94	119,012	86,982	5.997
Pacific Northwest Bell Tel.	281	4.500	12-01-00	281,000	163,683	4.500
Pacific Northwest Bell Tel.	110	6.750	12-01-07	111,359	86,350	6.649
Pacific Northwest Bell Tel.	250	6.750	12-01-07	255,256	196,250	6.580
Pacific Northwest Bell Tel.	150	6.750	12-01-07	156,141	117,750	6.426
Pacific Northwest Bell Tel.	500	6.750	12-01-07	359,496	392,500	9.650
Pacific Northwest Bell Tel.	200	7.750	08-01-09	200,000	177,500	7.750
Pacific Northwest Bell Tel.	300	7.750	08-01-09	293,874	266,250	7.937
Pacific Northwest Bell Tel.	100	8.625	10-01-10	98,994	94,480	8.726
Pacific Northwest Bell Tel.	300	8.625	10-01-10	316,444	283,440	8.115
Pacific Tel. & Tel.	100	5.125	08-01-80	101,767	88,500	4.740
Pacific Tel. & Tel.	100	5.125	08-01-80	101,553	88,500	4.693
Pacific Tel. & Tel.	73	3.125	09-15-83	66,442	51,648	4.360
Pacific Tel. & Tel.	100	4.375	08-15-88	87,857	67,380	5.984
Pacific Tel. & Tel.	50	4.625	05-01-00	50,000	29,875	4.617
Pacific Tel. & Tel.	80	4.625	05-01-00	80,000	47,800	4.625
Pacific Tel. & Tel.	175	6.000	11-01-02	176,096	125,265	5.949
Pacific Tel. & Tel.	200	6.000	11-01-02	202,749	143,160	5.890
Pacific Tel. & Tel.	1,000	6.000	11-01-02	877,242	715,800	7.098
Pacific Tel. & Tel.	300	6.000	11-01-02	216,972	214,740	6.000
Pacific Tel. & Tel.	300	8.750	10-01-06	299,663	290,610	8.761
Pacific Tel. & Tel.	360	7.800	03-01-07	360,000	316,800	7.800
Pacific Tel. & Tel.	300	7.800	03-01-07	308,853	264,000	7.535
Pacific Tel. & Tel.	200	9.500	06-15-11	189,235	202,000	10.070
Pennsylvania Electric	200	4.625	10-01-94	203,130	108,760	4.494
Philadelphia Electric	10	3.125	04-01-85	9,129	5,850	4.372
Philadelphia Electric	16	3.125	04-01-85	14,505	9,360	4.244
Philadelphia Electric	175	4.500	05-01-94	176,048	92,103	4.449
Philadelphia Electric	250	6.125	10-01-97	250,628	159,700	6.102
Philadelphia Electric	50	6.125	10-01-97	48,824	31,940	6.341
Potomac Edison	100	4.625	03-01-94	100,869	58,380	4.568
Potomac Electric Power	300	4.375	02-15-98	302,268	163,890	4.318
Potomac Electric Power	200	7.750	10-01-07	200,461	165,760	7.730
Public Service—Colorado	100	4.625	05-01-89	101,851	67,130	4.433
Public Service—Colorado	100	4.500	10-01-91	100,660	63,630	4.436
Public Service—New Mexico	200	7.500	06-15-02	197,870	170,260	7.600
Rochester Gas & Electric	100	4.625	09-15-94	101,664	56,130	4.494

PUBLIC EMPLOYEES' RETIREMENT SYSTEM FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST \$	MARKET VALUE	YIELD
PUBLIC UTILITIES						
Rochester Gas & Electric	\$ 100	4.625	09-15-94	101,560	56,130	4.486
South Central Tel. & Tel.	600	8.500	11-01-01	602,895	574,440	8.449
Southern Bell Tel. & Tel.	53	4.000	10-01-83	47,159	40,084	6.101
Southern Bell Tel. & Tel.	100	4.625	12-01-93	102,256	63,630	4.441
Southern Bell Tel. & Tel.	100	4.625	12-01-93	102,256	63,630	4.426
Southern Bell Tel. & Tel.	105	5.000	12-01-97	108,371	67,337	4.755
Southern Bell Tel. & Tel.	100	4.375	03-01-98	97,068	58,000	4.599
Southern Bell Tel. & Tel.	300	8.000	07-01-99	302,592	273,420	7.911
Southern Bell Tel. & Tel.	50	4.750	09-01-00	50,482	30,300	4.654
Southern Bell Tel. & Tel.	50	4.750	09-01-00	50,655	30,300	4.654
Southern Bell Tel. & Tel.	300	4.750	09-01-00	226,437	181,800	6.997
Southern Bell Tel. & Tel.	600	9.050	07-01-03	621,089	598,680	8.684
Southern Bell Tel. & Tel.	250	9.050	07-01-03	257,631	249,450	8.701
Southern Bell Tel. & Tel.	700	9.050	07-01-03	721,368	698,160	8.735
Southern Bell Tel. & Tel.	130	4.375	08-01-03	130,247	71,825	4.361
Southern Bell Tel. & Tel.	70	4.375	08-01-03	69,723	38,675	4.462
Southern Bell Tel. & Tel.	100	6.000	10-01-04	103,105	103,210	5.762
Southern Bell Tel. & Tel.	200	6.000	10-01-04	205,996	144,660	5.770
Southern Bell Tel. & Tel.	300	6.000	10-01-04	263,560	216,980	7.060
Southern Bell Tel. & Tel.	350	6.000	10-01-04	305,121	253,155	7.127
Southern Bell Tel. & Tel.	200	4.375	05-15-88	201,152	134,500	4.316
Southern California Edison	200	4.375	03-01-89	199,111	132,260	4.421
Southern California Edison	250	6.125	08-15-91	227,868	194,375	7.143
Southern California Edison	200	4.375	07-01-88	201,013	131,260	4.319
Southern California Gas	200	5.875	12-01-91	175,692	147,760	7.264
Southern California Gas	300	7.625	09-01-97	300,664	248,640	7.602
Southern California Gas	200	7.625	09-01-97	200,885	165,760	7.600
Southern New England Tel.	100	7.750	06-01-04	100,000	86,880	7.750
Southwestern Bell Tel.	135	4.500	08-01-97	137,790	80,649	4.345
Southwestern Bell Tel.	10	6.750	06-01-08	10,157	7,982	6.624
Southwestern Bell Tel.	410	6.750	06-01-08	420,974	322,916	6.459
Southwestern Bell Tel.	100	6.750	06-01-08	103,683	78,760	6.624
Southwestern Bell Tel.	485	6.750	06-01-08	492,588	381,986	6.624
Southwestern Bell Tel.	100	8.250	09-01-05	101,141	93,700	8.139
Southwestern Electric Power	300	4.375	04-01-93	300,600	183,000	4.356
Southwestern Public Service	70	4.500	02-01-94	70,368	42,700	4.454
Southwestern Public Service	30	4.500	02-01-94	30,000	18,300	4.500
Tennessee Valley Authority	150	9.000	03-15-95	152,538	155,250	8.799
Texas Electric Service	300	4.375	04-01-93	302,094	184,500	4.314
Texas Electric Service	200	4.500	02-01-95	201,214	122,260	4.454
Texas Power & Light	100	4.500	01-01-91	101,492	65,000	4.360
Texas Power & Light	100	8.875	09-01-00	102,089	98,060	8.651

PUBLIC EMPLOYEES' RETIREMENT SYSTEM FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
PUBLIC UTILITIES						
Tucson Gas & Electric	\$ 250	4.550	02-01-95	\$ 250,000	\$ 127,750	4.550
Union Electric	100	4.500	11-01-93	100,657	57,250	4.441
United Intermountain Tel.	500	11.000	10-01-99	500,000	408,150	11.000
United Illuminating	500	8.250	12-15-03	500,000	422,500	8.250
United Tel.—Carolinas	490	7.875	10-01-02	490,000	431,200	7.875
United Tel.—Missouri	490	7.875	06-01-03	490,000	431,200	7.875
United Tel.—Northwest	500	10.750	09-01-99	500,000	505,000	10.750
Utah Power & Light	300	7.500	05-01-02	300,000	240,000	7.500
Virginia Electric & Power	100	4.500	12-01-93	100,757	56,750	4.432
Washington Water Power	200	4.625	09-01-94	200,000	116,000	4.625
Wisconsin Power & Light	49	4.625	03-01-89	49,877	32,095	4.436
Wisconsin Public Service	300	4.500	06-01-94	301,093	171,390	4.469
TOTAL	<u>\$ 57,254</u>			<u>\$ 56,327,532</u>	<u>\$ 44,353,190</u>	
COMMON STOCK HOLDINGS						
	<u>\$ 6,300</u>			<u>\$ 6,287,008</u>	<u>\$ 7,247,530</u>	
MORTGAGES						
	<u>\$ 19,117</u>			<u>\$ 19,116,505</u>	<u>\$ 19,116,505</u>	
LAND & BUILDING						
	<u>\$ 153</u>			<u>\$ 153,011</u>	<u>\$ 153,011</u>	
TOTAL INVESTMENTS	<u>\$ 120,356</u>			<u>\$ 119,289,223</u>	<u>\$ 105,900,205</u>	

COMMON STOCK PORTFOLIO
6-30-75*

INDUSTRY / COMPANY	SHARES	COST	MARKET 06-30-75	ANNUAL DIVIDEND P/S	% YIELD
AIRLINES					
Delta	6,000	\$ 205,914	\$ 222,000	\$.60	1.75
U.A.L.	14,000	236,753	287,000	.60	3.55
BANKING					
Citicorp	4,000	113,825	154,000	.88	3.09
Mfs. Hanover	10,000	380,905	382,500	1.72	4.52
NW Bancorporation	9,000	380,600	420,750	1.60	3.78
Wells Fargo	19,000	337,544	361,000	.96	5.41
CHEMICAL					
American Cyanamid	16,000	329,193	442,000	1.50	7.29
Hercules	7,000	221,711	224,000	.80	2.53
Monsanto	6,000	352,591	433,500	2.60	4.42
DRUGS					
Abbott Labs	8,000	425,153	610,000	1.44	2.71
Bristol Myers	6,000	261,585	413,250	1.60	3.67
Smith Kline	8,000	358,511	424,000	2.00	4.46
ELECTRONICS					
R.C.A.	20,000	354,269	410,000	1.00	5.65
FOOD PRODUCTS					
General Mills	8,000	385,141	401,000	1.20	2.49
INSURANCE					
St. Paul Companies	7,000	198,250	224,000	.72	2.54
MISCELLANEOUS SERVICES					
Otis Elevator	10,000	378,453	298,750	2.20	5.81
Owens Illinois	11,000	383,784	453,750	1.72	4.93
OFFICE EQUIPMENT					
IBM	2,100	447,673	438,900	6.00	2.81
PAPER & FOREST PRODUCTS					
Georgia Pacific	11,382	355,345	515,036	.80	2.56
International Paper	9,000	391,222	459,000	2.00	4.60
PETROLEUM & GAS					
Arkansas Louisiana Gas	16,000	324,981	432,000	1.70	8.37
Atlantic Richfield	4,000	330,601	414,000	2.50	3.02

**COMMON STOCK PORTFOLIO
6-30-75***

	SHARES	COST	MARKET 06-30-75	ANNUAL DIVIDEND P/S	% YIELD
PETROLEUM & GAS					
Exxon	5,000	\$ 448,450	\$ 462,500	\$ 5.00	5.57
Mobil Oil	9,000	448,979	427,500	3.40	6.81
Phillips Petroleum	9,000	397,643	535,500	1.60	3.62
Standard Oil of Indiana	10,000	476,764	493,750	2.00	4.19
Union Oil of California	12,000	452,381	541,500	1.98	5.25
RETAIL					
Safeway Stores	7,000	238,018	329,875	1.80	5.29
STEEL					
U.S. Steel	5,000	207,013	306,875	2.80	6.76
TIRE & RUBBER					
Goodyear Tire & Rubber	22,000	355,713	418,000	1.10	6.80
UTILITIES (COMMUNICATION)					
American Tel. & Tel.	7,000	316,965	356,125	3.40	7.51
Central Telephone	18,000	332,151	382,500	1.20	6.50
Communication Satellite	10,000	363,665	436,250	1.00	2.75
UTILITIES (ELECTRICAL)					
Arizona Public Service	20,000	344,656	315,000	1.36	7.89
Florida Power & Light	14,000	377,647	364,000	1.46	5.41
Montana Power	14,000	383,603	374,500	1.80	6.57
Texas Utilities	14,000	276,364	330,750	1.24	6.28
TOTAL	<u>387,482</u>	<u>\$ 12,574,016</u>	<u>\$ 14,495,061</u>	<u>Avg. 4.85</u>	

*Public Employees' Retirement System and Teachers' Retirement System each own 50%.

TEACHERS' RETIREMENT FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
GOVERNMENT OBLIGATIONS						
FEDERAL AGENCIES						
Federal Housing Administration	\$ 14	4.125	12-29-84	\$ 14,150	\$ 10,310	4.125
TOTAL	<u>\$ 14</u>			<u>\$ 14,150</u>	<u>\$ 10,310</u>	
U.S. GOVERNMENT GUARANTEED						
Davern Park Apartments	\$ 100	5.150	04-01-05	\$ 101,636	\$ 101,690	5.036
Gateway Manor	100	5.000	02-01-04	100,000	65,560	5.000
Gulf Reston Properties	503	7.950	12-20-93	503,077	503,553	7.950
International Bank for Reconstruction	500	8.125	08-01-96	500,000	472,500	8.125
Martin Luther Tower Mortgage	153	5.150	05-01-06	142,167	141,816	5.732
Presbyterian Ministries	25	5.000	02-01-03	25,325	25,335	4.908
Rocky Mountain Methodist Homes	56	5.150	07-01-05	56,000	56,000	5.150
Two Buttes Water	127	8.750	03-12-10	126,518	127,902	8.750
Walnut Creek Manor	91	5.150	10-01-04	91,000	91,000	5.150
TOTAL	<u>\$ 1,655</u>			<u>\$ 1,645,723</u>	<u>\$ 1,585,356</u>	
CANADIAN OBLIGATIONS						
Bell Tel—Canada	\$ 500	9.500	06-01-04	\$ 500,000	\$ 475,350	9.500
British Columbia Hydro & Power	500	9.625	06-01-05	498,753	505,000	9.625
Canadian National RW	992	8.500	07-15-89	992,057	992,057	8.500
Canadian Pacific Equipment	500	10.125	07-02-90	500,000	500,000	10.125
Manitoba Hydro Electric	500	9.375	12-01-04	481,599	488,750	9.375
Province of New Brunswick	500	8.375	12-15-98	494,124	436,250	8.400
Quebec Hydro Electric	800	10.700	08-01-99	800,000	868,000	10.700
Quebec Hydro Electric	500	8.500	08-01-03	489,905	446,250	8.550
Quebec Hydro Electric	500	8.500	08-01-03	497,625	446,250	8.700
Quebec Hydro Electric	500	8.250	01-01-04	497,601	443,750	8.290
TOTAL	<u>\$ 5,792</u>			<u>\$ 5,751,664</u>	<u>\$ 5,601,657</u>	
CORPORATE OBLIGATIONS						
COMMERCIAL PAPER						
Baxter Labs	\$ 1,000	0.000	07-09-75	\$ 997,833	\$ 997,833	6.000
Channelview Construction	500	0.000	07-08-75	498,358	498,358	5.375
Continental Can	600	0.000	07-02-75	599,329	599,329	5.750
Kraftco	600	0.000	07-08-75	599,200	599,200	6.000
C&H Sugar	1,300	0.000	07-15-75	1,295,640	1,295,640	5.750
TOTAL	<u>\$ 4,000</u>			<u>\$ 3,990,360</u>	<u>\$ 3,990,360</u>	

TEACHERS' RETIREMENT FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
FINANCIAL						
Associates Corp—North America	\$ 300	7.375	12-01-88	298,422	\$ 221,640	7.444
AVCO Financial Services	250	7.875	05-01-92	247,887	203,750	7.976
AVCO Financial Services	500	7.625	12-01-97	500,000	389,400	7.625
Beneficial Finance	50	5.000	11-01-90	37,793	33,540	8.359
CIT Financial	150	6.375	10-01-86	139,496	122,625	7.419
CIT Financial	150	4.625	05-01-89	106,733	97,755	9.028
CNA Financial	250	8.500	12-15-95	248,975	180,625	8.549
Chase Manhattan CV	100	6.500	05-01-96	100,000	30,000	6.500
Chrysler Financial	100	7.700	03-01-92	98,533	54,750	7.877
Clark Equipment Credit	300	7.850	12-15-91	300,000	258,000	7.850
Commercial Credit	600	4.375	04-01-81	537,537	455,280	7.061
Commercial Credit	500	7.750	02-15-92	495,844	392,850	7.851
Dominion Bankshares	200	7.750	11-15-96	200,000	164,500	7.750
First Security Corp	500	7.000	10-01-79	500,000	471,250	7.000
Ford Motor Credit	500	7.250	05-01-79	501,924	485,650	7.300
Ford Motor Credit	500	7.250	05-01-79	499,197	485,650	7.150
General Motors Acceptance	180	4.625	06-15-86	134,630	131,940	8.994
Walter F. Heller	300	9.500	12-01-89	300,000	291,390	9.500
Industrial National Corp	500	7.400	07-01-81	500,000	473,150	7.400
International Harvester Credit	200	8.625	08-01-91	200,000	181,880	8.625
International Harvester Credit	900	7.500	01-15-94	896,023	711,000	7.550
J. P. Morgan & Co. CV	150	4.750	11-01-98	150,000	118,635	4.750
Northwest Bancorporation	500	7.750	03-15-03	500,000	430,000	7.750
Trailmobile Financial	500	7.875	03-15-93	496,677	422,500	7.950
Transamerica Financial	500	7.875	11-01-91	496,938	393,750	7.951
TOTAL	\$ 8,680			\$ 8,486,609	\$ 7,201,510	
INDUSTRIAL						
Allied Chemical	\$ 125	6.600	08-01-93	125,000	\$ 103,125	7.944
Allied Chemical	500	9.000	04-01-00	496,292	498,150	9.076
Aluminum Co.—N.America CV	50	5.250	09-15-91	52,702	52,995	4.483
Anaconda Co.	100	6.625	11-15-93	98,428	77,720	6.793
Anaconda Co.	250	6.625	11-15-93	230,047	194,300	7.510
Armstrong Cork	250	8.000	05-15-96	250,000	233,450	8.000
Ashland Oil Inc. CV	50	4.750	08-15-93	52,737	52,890	4.254
Atlantic Richfield	300	8.625	04-01-00	300,000	295,890	8.625
Bendix	100	6.625	12-01-92	94,300	83,110	7.263
Berkshire Hathaway	500	8.000	03-01-93	500,000	500,000	8.000
Bethlehem Steel	500	8.450	03-01-05	500,000	485,000	8.450
Borg-Warner	200	5.500	03-01-92	200,000	152,860	5.500
Bristol Meyers	125	5.700	06-01-92	125,000	98,287	5.700

TEACHERS' RETIREMENT FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST \$	MARKET VALUE \$	YIELD
INDUSTRIAL						
Carnation	200	8.500	05-01-99	199,523	199,120	8.520
Caterpillar Tractor	300	5.300	04-01-92	266,156	228,180	6.524
Channing House	92	5.000	05-01-04	94,193	94,272	4.851
Cities Service	525	6.625	08-01-99	457,155	415,852	8.043
Cities Service	250	6.625	08-01-99	231,794	198,025	7.330
Container Corp.—America	100	6.625	03-15-93	100,000	82,500	6.625
Dayton Hudson	250	9.750	06-01-95	250,000	250,000	9.750
Eaton, Yale & Towne	100	5.500	03-15-92	100,000	75,000	5.500
Food Maker	250	8.750	11-01-39	250,000	250,000	8.750
General Mills	200	8.875	10-15-95	200,000	198,600	8.875
Georgia Pacific CV	100	6.250	05-15-00	100,000	112,000	6.250
Grace Line	48	5.100	02-01-92	48,000	36,053	5.100
Gulf Oil	50	6.625	06-15-93	50,000	42,045	6.626
Halliburton	500	9.250	04-01-00	497,523	511,250	9.250
Hercules CV	200	6.500	06-30-99	200,000	218,000	6.500
Honeywell	100	5.600	03-01-92	100,000	75,500	5.600
Ingersoll Rand	500	8.750	05-01-85	498,525	507,500	8.875
International Harvester	100	6.250	03-01-98	100,000	78,880	6.250
Kennecott Copper	300	7.875	05-01-01	292,239	271,830	8.144
Marathon Oil	250	8.500	02-01-00	249,484	241,250	8.523
May Department Stores	400	9.000	11-15-89	400,000	371,520	9.000
McGraw Hill CV	49	3.875	05-01-92	46,759	46,628	4.313
MGIC Investment Corp CV	55	5.000	12-15-93	55,000	30,800	5.000
National Cash Register CV	50	5.600	06-15-91	41,881	37,940	7.626
National Cash Register CV	100	6.000	05-01-95	100,000	82,000	6.000
NLT Corp	500	8.800	05-01-85	500,000	510,000	8.800
Outboard Marine	100	7.750	02-01-96	99,588	86,000	7.795
Packaging Corporation—America	105	4.375	10-01-87	105,000	66,938	4.375
J. C. Penney	250	9.000	06-15-99	250,000	243,750	9.000
Pet Inc.	50	8.000	03-01-91	50,000	46,065	8.000
Phillip Morris	100	6.625	10-15-93	98,479	82,630	6.954
Phillip Morris	250	8.875	06-01-04	248,493	247,500	8.930
Phillips Petroleum	200	7.625	03-15-01	199,140	179,880	7.668
Pillsbury CV	63	4.750	02-15-89	58,120	57,758	5.682
Pillsbury	225	8.750	11-01-95	225,000	216,855	8.750
Pittston CV	200	4.000	07-01-97	200,000	107,500	4.000
Pullman Transport Leasing	200	7.750	06-15-92	200,000	169,760	7.750
RCA	600	10.200	08-15-92	600,000	615,000	10.200
Research Properties	250	8.250	11-01-99	250,000	250,000	8.250
R. J. Reynolds Tobacco	50	7.875	09-01-94	49,904	46,625	7.898
J. Schlitz Brewing	650	7.200	01-15-96	625,762	557,375	7.603
Sears & Roebuck	250	8.625	10-01-95	248,977	251,775	8.674

TEACHERS' RETIREMENT FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
INDUSTRIAL						
Shell Oil	\$ 200	5.300	03-15-92	\$ 199,666	\$ 147,720	5.318
Shell Oil	150	5.300	03-15-92	120,431	110,790	7.756
Shell Oil	500	8.750	05-15-05	496,261	500,000	8.750
Standard Oil—Calif.	333	7.500	01-01-99	333,335	333,668	7.500
Standard Oil—New Jersey	250	6.500	07-15-98	250,000	203,750	6.500
Standard Oil—Ohio	250	8.500	01-01-00	249,481	238,900	8.523
Stauffer Chemical	250	8.125	06-01-96	247,905	233,125	8.220
Sunbeam	100	5.500	08-15-92	85,511	74,450	7.273
Sybron	100	7.500	04-15-94	98,817	87,630	7.636
Sybron	150	7.500	04-15-94	139,371	131,445	8.356
Systems Building	673	8.000	07-01-97	672,718	673,055	8.000
Textron	200	7.500	07-15-97	200,000	176,760	7.500
Union Oil—California	150	6.625	06-01-98	148,513	121,815	6.722
Union Oil—California	500	7.500	01-01-98	500,000	429,900	7.500
U.S. Industries	350	7.750	06-01-97	350,000	231,875	7.750
U.S. Shoe	150	7.125	02-15-94	149,021	120,570	7.750
U.S. Steel	200	7.750	03-01-01	200,000	179,640	7.750
Western Auto Supply	450	7.850	01-15-96	447,203	405,000	7.919
Western Auto Supply	300	7.850	01-15-96	251,229	270,000	7.850
Westinghouse Electric	100	8.625	09-01-95	99,798	92,180	8.649
White Motor	125	7.500	03-01-93	125,000	88,913	7.500
Witco Chemical CV	20	4.500	12-15-93	20,000	12,600	4.500
Youngstown Sheet & Tube	350	10.500	08-01-00	350,000	338,625	10.500
Youngstown Sheet & Tube	866	4.600	07-01-95	624,735	612,695	7.558
TOTAL	\$ 18,879			\$ 18,320,196	\$ 17,038,039	
TRANSPORTATION						
ACF Industries	\$ 40	5.625	04-15-81	\$ 40,000	\$ 34,000	5.625
ACF Industries	93	5.500	04-15-82	93,000	76,911	5.500
Atchison, Topeka & Santa Fe	250	7.125	02-15-82	240,349	238,900	7.978
Atchison, Topeka & Santa Fe	500	7.250	05-01-78	500,000	494,500	7.250
Burlington Northern	178	8.125	09-01-81	178,194	179,050	8.125
Burlington Northern	260	9.625	10-01-87	260,000	267,582	9.625
Burlington Northern	250	8.500	05-01-96	250,000	229,550	8.500
Burlington Northern	695	7.750	07-15-86	695,149	695,566	7.750
Calif. & Hawaiian Sugar	479	8.250	08-24-93	479,119	479,982	8.250
Clinchfield Equipment Trust	100	5.500	01-15-81	100,384	100,450	5.397
Fruit Growers	125	4.600	05-01-80	96,631	90,763	12.234
Fruit Growers	60	4.650	07-15-80	60,000	47,034	4.625
Fruit Growers	133	7.000	04-15-83	133,333	114,253	7.000
Fruit Growers Express	392	9.250	05-15-89	392,000	328,614	9.250
Grand Trunk Western	198	9.250	09-15-85	197,903	198,423	9.250

TEACHERS' RETIREMENT FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
TRANSPORTATION						
GSCX First Equipment	212	9.750	06-15-86	211,990	\$ 212,372	9.750
Illinois Central	25	5.250	08-01-80	23,299	19,595	7.042
Lakehead Pipeline	50	6.500	08-01-92	44,840	39,875	7.761
Lakehead Pipeline	100	7.125	04-15-93	89,089	84,000	8.443
Lakehead Pipeline	200	7.600	06-15-97	200,000	156,900	7.600
Louisville & Nashville	100	7.000	03-01-84	100,000	87,300	7.000
Michigan Wisconsin Pipeline	100	8.000	04-15-91	98,022	85,630	8.260
Michigan Wisconsin Pipeline	200	7.625	12-15-91	198,316	168,260	7.725
Missouri Pacific	50	8.250	10-15-80	50,000	48,750	8.250
Norfolk & Western	167	8.875	10-01-84	166,667	166,967	8.875
Northern Pacific	114	5.500	03-01-82	114,333	114,916	5.500
Northern Pacific	148	6.625	02-01-84	147,837	148,118	6.625
Pennsylvania Central	399	10.000	11-01-85	398,677	398,757	10.000
Plantation Pipeline	404	4.500	02-01-94	311,929	306,959	6.875
Plantation Pipeline	250	7.000	02-01-99	250,000	207,975	7.000
St. Louis San Francisco	13	4.250	03-15-76	12,882	12,716	4.854
St. Louis San Francisco	29	4.250	03-15-77	28,793	28,672	4.810
St. Louis San Francisco	29	4.250	03-15-78	28,347	28,107	4.774
St. Louis San Francisco	14	4.250	03-15-79	13,633	13,534	4.743
St. Louis San Francisco	49	4.250	03-15-80	47,579	47,280	4.717
St. Louis San Francisco	93	5.750	03-01-82	93,333	93,921	5.750
St. Louis San Francisco	100	9.500	02-01-85	100,000	101,550	9.500
St. Louis San Francisco	248	9.750	07-01-85	248,193	248,391	9.750
St. Louis Southwestern	400	7.125	02-01-78	401,064	401,480	7.000
Seaboard Coastline	170	6.375	12-15-82	169,510	169,646	6.375
Seaboard Coastline	209	10.500	03-01-85	209,275	209,987	10.500
Shell Pipeline	250	7.500	07-01-99	250,000	222,500	7.500
Spokane, Portland & Seattle	147	9.625	03-01-85	147,131	147,249	9.625
Towson Equipment	245	8.500	01-01-85	244,530	245,435	8.500
Trailer Train	40	5.000	07-15-76	39,942	39,888	11.042
Trailer Train	320	7.125	12-01-82	309,690	308,576	7.770
Trailer Train	60	7.250	12-15-83	60,000	60,606	7.250
Trailer Train	183	10.500	07-15-85	183,333	184,250	10.500
Trailer Train	500	8.750	04-01-89	500,000	444,900	8.750
Transok Pipeline	500	9.000	11-01-80	500,000	515,000	9.000
Union Tank Car	46	9.300	11-15-89	46,000	45,540	9.300
Western Maryland	250	7.875	10-01-78	243,825	241,925	8.914
TOTAL	\$ 10,167			\$ 9,998,126	\$ 9,633,105	
PUBLIC UTILITIES						
American Tel. & Tel.	100	7.000	02-15-01	99,359	\$ 84,250	7.060
Brooklyn Union Gas	777	4.375	05-28-88	573,932	451,670	8.309

TEACHERS' RETIREMENT FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
PUBLIC UTILITIES						
Carolina Power & Light	\$ 100	4.500	11-01-91	\$ 101,245	\$ 54,380	4.366
Carolina Tel. CV	63	5.750	01-15-88	57,256	56,795	7.035
Central Illinois Public Service	25	4.750	01-01-89	20,335	17,063	7.377
Central Illinois	100	5.875	05-01-97	91,064	71,250	6.754
Central Maine	200	7.700	07-01-97	200,000	159,000	7.700
Chesapeake & Potomac Tel.-Maryland	100	5.875	06-01-04	100,889	71,000	5.799
Chesapeake & Potomac Tel.-Virginia	225	5.250	05-01-05	226,896	143,730	5.185
Chesapeake & Potomac Tel.-Virginia	120	5.625	03-01-07	121,140	80,556	5.549
Columbia Gas System	50	7.250	05-01-93	50,000	42,250	7.250
Commonwealth Edison	170	3.250	07-01-82	160,654	126,446	4.394
Consolidated Edison-New York	500	4.000	06-01-88	447,361	248,750	5.383
Consolidated Edison-New York	50	4.375	10-01-92	42,971	23,190	5.951
Consolidated Edison-New York	200	4.625	12-01-93	203,491	94,360	4.451
Consolidated Edison-New York	150	5.900	12-15-96	150,000	82,695	5.900
Consolidated Edison-New York	400	7.900	04-15-02	396,060	277,320	8.051
Consolidated Edison-New York	250	7.900	04-15-02	247,538	173,325	8.011
Consolidated Edison-New York	250	7.900	04-15-02	250,000	173,325	7.900
Consumers Power	500	11.375	08-01-94	500,000	473,750	11.375
Dallas Power & Light	200	4.250	02-01-93	180,450	121,760	5.281
Delaware Power & Light	50	4.625	10-01-94	50,603	28,815	4.509
Detroit Edison	150	6.000	12-01-96	150,000	88,125	6.000
Diamond State Tel.	50	4.750	04-01-94	50,734	32,065	4.607
Duquesne Light	100	5.125	02-01-96	100,793	63,000	5.049
El Paso Electric	100	4.625	02-01-92	80,277	63,630	7.017
Equitable Gas	486	8.000	06-15-97	486,000	490,482	8.000
Florida Power & Light	100	4.375	12-01-86	99,364	66,000	7.450
Florida Power & Light	100	4.375	12-01-86	78,310	66,000	4.463
Florida Power & Light	100	4.500	08-01-92	101,268	58,888	4.368
General Tel.-California	320	5.000	12-01-89	261,628	212,416	7.287
General Tel.-California	100	4.625	12-01-91	88,924	61,000	5.910
General Tel.-Florida	200	7.500	08-01-02	198,262	155,780	7.600
Georgia Power	100	4.625	10-01-94	100,994	49,130	4.530
Georgia Power	500	7.500	12-01-02	500,000	349,300	7.500
Gulf Power	100	4.625	10-01-94	101,293	61,250	4.501
Hartford Electric Light	50	4.250	04-01-93	49,778	26,250	6.625
Idaho Power	65	4.500	10-15-88	58,127	42,250	5.901
Illinois Bell Tel.	50	4.875	07-01-97	49,295	32,000	5.001
Illinois Bell Tel.	300	4.375	07-01-03	300,592	167,250	4.360
Illinois Power	50	5.850	10-01-96	42,715	36,125	7.602
Indiana Bell Tel.	300	4.375	06-01-03	303,117	165,000	4.294
Indiana Bell Tel.	50	4.750	10-01-05	50,000	29,125	4.607
Kansas Nebraska Natural Gas	146	8.450	08-01-91	146,000	128,845	8.450

TEACHERS' RETIREMENT FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST \$	MARKET VALUE	YIELD
PUBLIC UTILITIES						
Kentucky Power	650	5.125	01-01-96	511,150	383,500	7.537
Lone Star Gas	100	7.250	12-15-93	100,000	80,380	7.250
Lone Star Gas	500	7.500	12-01-96	498,933	406,250	7.500
Long Island Lighting	500	4.550	06-01-95	500,000	273,050	4.550
Michigan Consolidated Gas	150	6.500	06-01-92	126,587	113,250	8.600
Michigan Consolidated Gas	300	7.625	07-01-97	300,000	245,250	7.625
Monongahela Power	250	8.875	05-01-01	254,005	216,875	8.699
Montana Power	98	4.500	04-01-89	99,177	64,925	4.370
Montana Power	600	7.500	04-01-01	601,814	510,240	7.466
Montana Power	500	8.625	03-01-04	501,279	474,400	8.600
Mountain States Tel. & Tel.	250	4.375	02-01-88	237,547	170,625	4.985
Mountain States Tel. & Tel.	200	9.000	11-01-10	200,000	199,500	9.000
Mountain States Tel. & Tel.	500	7.750	06-01-13	500,000	442,500	7.750
National Rural Utilities	500	7.400	12-01-07	498,261	405,650	7.430
New England Power	200	4.500	11-01-93	201,417	111,760	4.439
New England Tel. & Tel.	150	4.000	04-01-93	131,800	87,000	5.280
New England Tel. & Tel.	100	4.625	04-01-99	72,684	59,500	7.476
New England Tel. & Tel.	75	4.500	07-01-02	63,345	42,750	5.856
New England Tel. & Tel.	200	6.250	09-01-97	189,742	139,500	6.751
New York State Electric & Gas	50	4.500	05-15-91	46,185	32,065	5.377
New York Tel.	100	4.625	10-01-97	103,426	60,000	4.327
New York Tel.	200	4.625	01-01-02	204,017	115,760	4.470
New York Tel.	100	4.875	01-01-06	100,765	59,130	4.818
Northern Illinois Gas	50	4.500	08-01-89	50,000	33,065	4.500
Northern Indiana Public Service	50	4.500	04-15-93	50,635	31,250	4.368
Northern Natural Gas	450	4.500	11-01-84	451,626	330,210	4.440
Northern States Power	250	4.375	09-01-93	249,810	150,325	4.382
Ohio Bell Tel.	150	5.000	02-01-06	151,147	91,875	4.942
Pacific Gas & Electric	20	4.500	12-01-86	18,597	14,226	5.511
Pacific Gas & Electric	100	5.000	06-01-91	76,763	68,330	8.089
Pacific Gas & Electric	300	4.500	06-01-96	302,725	191,970	4.418
Pacific Gas & Electric	100	4.500	12-01-96	100,000	59,500	4.500
Pacific Gas & Electric	100	5.375	06-01-98	100,274	67,200	5.350
Pacific Gas & Electric	150	5.750	12-01-98	149,223	106,125	5.798
Pacific Gas & Electric	100	6.750	12-01-00	94,537	79,000	7.302
Pacific Lighting Service	300	7.625	12-01-91	300,000	252,390	7.625
Pacific Northwest Bell Tel.	250	4.500	12-01-00	251,756	145,625	4.430
Pacific Northwest Bell Tel.	50	4.500	04-01-03	42,642	28,565	5.748
Pacific Tel. & Tel.	400	4.625	04-01-99	406,943	241,000	4.479
Pacific Tel. & Tel.	200	4.625	05-01-00	191,618	119,500	4.983
Pacific Tel. & Tel.	20	6.000	11-01-02	16,106	14,316	8.049
Pennsylvania Electric	100	4.625	10-01-94	101,207	54,380	4.509

TEACHERS' RETIREMENT FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST \$	MARKET VALUE \$	YIELD
PUBLIC UTILITIES						
Pennsylvania Power & Light	500	7.500	01-01-03	498,278	410,650	7.500
Philadelphia Electric Power	100	5.750	06-15-77	100,000	93,780	5.750
Philadelphia Electric Power	25	4.500	03-01-95	23,342	12,158	5.151
Potomac Electric Power	50	4.625	12-01-93	51,124	29,875	4.406
Potomac Electric Power	100	4.500	05-15-99	100,000	55,130	4.500
Public Service-Colorado	50	4.500	10-01-91	50,620	31,815	4.366
Public Service-Indiana	75	3.125	11-01-77	73,351	67,687	4.382
Public Service-New Hampshire	300	7.625	06-15-02	300,000	226,140	7.625
Public Service Electric & Gas	50	4.375	11-01-86	48,225	32,440	4.880
Public Service Electric & Gas	10	4.625	08-01-88	9,590	6,313	5.088
Public Service Electric & Gas	300	4.625	09-01-94	302,982	168,390	4.529
Public Service Electric & Gas	50	4.750	09-01-95	50,295	28,250	4.694
Public Service Electric & Gas	295	7.750	08-15-96	295,000	223,846	7.750
Public Service Electric & Gas	400	7.500	04-01-02	400,000	326,000	7.500
Puget Sound Power & Light	50	4.625	11-01-93	50,122	26,875	4.600
Rochester Gas & Electric	100	4.500	11-15-91	101,239	57,750	4.367
San Diego Gas & Electric	50	4.500	09-01-94	50,000	24,690	4.500
San Diego Gas & Electric	50	4.500	09-01-94	35,836	24,690	7.400
Southeastern Tel.	500	7.650	02-01-97	500,000	410,650	7.650
Southern Bell Tel. & Tel.	100	4.000	10-01-83	97,765	75,630	4.408
Southern Bell Tel. & Tel.	25	4.375	03-01-98	21,346	14,500	5.756
Southern Bell Tel. & Tel.	165	4.750	09-01-00	166,427	99,990	4.679
Southern California Edison	100	4.875	09-01-82	83,963	82,500	8.571
Southern California Edison	200	4.375	03-01-89	198,912	132,260	4.432
Southern California Edison	150	4.500	02-15-90	150,217	99,810	4.482
Southern California Edison	500	4.500	02-15-90	386,880	332,700	7.190
Southern California Edison	150	5.250	05-15-91	148,886	105,885	5.335
Southern New England Tel.	250	8.125	05-01-08	246,668	226,025	8.255
Southern Union Gas	50	4.625	05-15-84	49,889	37,315	8.125
Southwestern Bell Tel.	500	4.625	08-01-95	476,376	311,450	5.055
Southwestern Public Service	100	4.625	02-01-95	100,500	61,380	4.579
Tenneco	488	8.250	10-01-91	489,987	382,816	8.198
Tucson Gas & Electric	250	4.550	02-01-95	250,000	127,900	4.550
Union Electric	100	4.375	03-01-88	100,131	63,250	4.358
Union Electric	300	4.500	11-01-93	301,480	171,750	4.450
United Tel.-Indiana	238	9.125	04-01-00	237,500	199,951	9.125
United Tel.-Missouri	490	7.875	06-01-03	490,000	431,200	7.875
United Tel.-Northwest	500	10.750	09-01-99	500,000	505,000	10.750
United Tel.-Ohio	188	7.600	08-01-02	188,000	152,280	7.600
United Tel.-Pennsylvania	238	9.750	06-01-00	237,500	212,349	9.750
Utah Power & Light	600	7.500	05-01-02	600,000	480,000	7.500
Virginia Electric & Power	150	4.500	05-01-95	149,377	84,000	4.538

TEACHERS' RETIREMENT FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
PUBLIC UTILITIES						
Washington Water Power	400	4.625	09-01-94	\$ 400,000	\$ 232,000	4.625
West Penn Power	100	4.500	03-01-92	101,255	60,630	4.367
Western Electric	450	7.500	06-15-96	450,000	410,625	7.500
Wisconsin Michigan Power	200	5.875	08-01-96	175,433	135,760	7.101
Wisconsin Natural Gas	100	4.875	10-01-90	100,383	64,600	4.831
Wisconsin Natural Gas	150	4.875	10-01-90	116,415	94,875	7.775
Wisconsin Natural Gas	100	8.750	09-15-94	101,179	90,500	8.599
Wisconsin Public Service	200	4.375	10-01-93	200,000	113,260	4.375
Wisconsin Public Service	100	4.500	06-01-94	100,238	57,130	4.476
Wisconsin Tel.	25	4.875	05-01-95	22,618	16,220	5.489
TOTAL	<u>\$ 28,222</u>			<u>\$ 27,295,787</u>	<u>\$ 20,195,023</u>	
COMMON STOCK HOLDINGS						
	<u>\$ 6,300</u>			<u>\$ 6,287,008</u>	<u>\$ 7,247,530</u>	
MORTGAGES	<u>\$ 21,233</u>			<u>\$ 21,233,392</u>	<u>\$ 21,233,392</u>	
BUILDING & LAND	<u>\$ 174</u>			<u>\$ 174,050</u>	<u>\$ 174,050</u>	
TOTAL INVESTMENTS	<u>\$ 105,116</u>			<u>\$ 103,197,065</u>	<u>\$ 93,910,332</u>	

TRUST & LEGACY FUND

GOVERNMENT OBLIGATIONS

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
U.S. TREASURY						
U.S. Treasury Notes	\$ 90	6.500	05-15-76	\$ 89,143	\$ 89,775	6.500
U.S. Treasury Notes	300	7.750	08-15-77	300,000	303,000	7.800
U.S. Treasury Notes	330	6.250	02-15-78	329,262	322,146	6.250
U.S. Treasury Notes	658	6.250	02-15-78	656,775	642,340	6.250
U.S. Treasury Notes	50	6.250	02-15-78	49,991	48,810	6.250
U.S. Treasury Bonds	470	4.000	02-15-80	472,833	407,725	3.811
U.S. Treasury Bonds	2,154	3.250	06-15-83	2,154,000	1,715,015	3.250
U.S. Treasury Bonds	100	3.250	06-15-83	100,008	79,620	3.250
U.S. Treasury Bonds	180	3.250	05-15-85	180,331	143,100	3.250
U.S. Treasury Bonds	170	4.250	05-15-85	170,260	137,904	4.250
U.S. Treasury Bonds	500	4.250	08-15-92	417,580	400,600	4.250
U.S. Treasury Bonds	220	4.250	08-15-92	184,523	176,246	4.250
U.S. Treasury Bonds	1,815	4.125	05-15-94	1,815,000	1,452,000	4.125
TOTAL	\$ 7,037			\$ 6,919,706	\$ 5,918,281	

FEDERAL AGENCIES

Federal Land Banks	\$ 86	5.000	02-24-76	\$ 84,585	\$ 84,925	5.000
Federal Land Banks	155	5.000	02-24-76	152,469	153,063	5.000
Federal Land Banks	300	7.150	10-20-76	300,000	299,625	7.150
Federal Land Banks	200	7.150	10-20-76	200,352	199,750	6.990
Federal Land Banks	160	5.125	04-20-78	160,091	149,200	5.125
Federal Land Banks	90	5.125	04-20-78	89,958	83,925	5.125
Federal Land Banks	130	5.125	04-20-78	128,498	122,356	5.125
Federal Land Banks	180	5.125	04-20-78	176,955	169,416	5.125
Federal Land Banks	215	5.125	04-20-78	210,239	200,488	5.125
Federal Land Banks	190	5.125	04-20-78	183,415	178,828	5.125
Federal Land Banks	80	5.125	04-20-78	75,014	75,266	5.125
Federal Land Banks	200	5.000	01-22-79	199,476	183,000	5.000
Federal Land Banks	125	5.000	01-22-79	124,601	114,375	5.000
Federal Land Banks	145	5.000	01-22-79	143,748	132,675	5.000
Federal Land Banks	110	5.000	01-22-79	109,143	100,650	5.000
Federal Land Banks	155	5.000	01-22-79	153,263	141,825	5.000
Federal Land Banks	120	5.000	01-22-79	118,531	109,800	5.000
Federal Land Banks	63	5.000	01-22-79	61,968	57,645	5.000
Federal Land Banks	96	5.000	01-22-79	93,655	87,840	5.000
Federal Land Banks	470	5.000	01-22-79	458,810	430,050	5.000
Federal Land Banks	175	5.000	01-22-79	169,743	160,125	5.000
Federal Land Banks	130	5.000	01-22-79	126,570	118,950	5.000
Federal Land Banks	235	5.000	01-22-79	224,795	215,025	5.000
Federal Land Banks	235	5.000	01-22-79	225,585	215,025	5.000
Federal Land Banks	100	5.000	01-22-79	91,931	91,500	5.000
Federal Land Banks	115	5.000	01-22-79	107,225	105,225	5.000

TRUST & LEGACY FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
FEDERAL AGENCIES						
Federal Land Banks	\$ 120	5.000	01-22-79	\$ 111,285	\$ 109,800	5.000
Federal Land Banks	150	5.000	01-22-79	143,826	137,250	5.000
Federal Land Banks	125	5.000	01-22-79	122,177	114,375	5.000
Federal Land Banks	50	6.700	04-20-81	50,304	47,185	6.700
Federal Land Banks	140	6.700	04-20-81	139,127	132,118	6.700
Federal Land Banks	120	6.700	04-20-81	120,000	113,244	6.700
Federal Land Banks	500	6.900	04-20-82	500,000	470,600	6.900
FHA Insured Notes	500	6.400	03-31-81	491,422	451,250	6.818
CNMA	500	7.150	05-26-97	492,125	436,250	7.300
CNMA	443	6.500	01-01-02	427,450	343,093	6.813
CNMA Passthrough	905	6.500	11-15-03	793,752	700,595	8.370
CNMA Passthrough	926	8.000	12-15-03	888,591	860,985	8.440
CNMA Participation Cert. (FNMA)	400	6.400	12-11-87	380,665	341,480	7.040
TOTAL	\$ 9,139			\$ 8,831,344	\$ 8,241,777	

U.S. GOVERNMENT GUARANTEED

American Export Lighting MM	\$ 3,961	7.300	01-01-94	\$ 3,961,000	\$ 3,533,608	7.300
American Export MM	2,068	7.300	07-01-97	2,068,000	1,861,200	7.300
American Export Staghound MM	3,973	7.300	01-01-94	3,973,000	3,575,700	7.300
American President Lines MM	700	7.625	05-01-96	703,800	653,380	7.567
Boston Tankers MM	500	8.200	04-01-96	500,000	487,800	8.200
Falcon Tankers MM	500	7.300	02-01-92	500,000	459,550	7.300
Jonathan Development Corp.	500	7.200	06-01-92	500,000	454,650	7.200
Litton Hull 102 System MM	489	7.375	12-12-98	488,780	446,110	7.375
Lykes Bros. Steamship MM	200	7.200	06-15-90	200,000	182,920	7.200
Lykes Bros. Steamship MM	756	8.300	09-15-91	789,203	746,172	7.748
Moore McCormick Line MM	135	5.750	04-01-87	120,917	119,718	7.241
Overseas Bulk Tank MM	1,428	7.375	12-27-93	1,428,350	1,435,140	7.375
Sun Shipbuilding MM	779	7.900	01-01-94	779,000	738,804	7.900
U.S. Govt. Delta Norte MM	200	7.200	03-01-98	199,563	199,540	7.200
U.S. Govt. Delta Sud MM	300	7.200	03-01-98	300,000	268,500	7.200
TOTAL	\$ 16,489			\$ 16,511,613	\$ 15,162,792	

CANADIAN OBLIGATIONS

British Columbia Hydro & Power	\$ 300	5.625	07-02-91	\$ 235,810	\$ 213,750	8.150
British Columbia Hydro & Power	500	9.625	06-01-05	498,753	505,000	9.625
Province of Ontario	500	10.250	10-01-04	500,000	533,750	10.250
Province of Ontario	500	8.875	03-01-05	497,525	488,750	8.875
TOTAL	\$ 1,800			\$ 1,732,088	\$ 1,741,250	

TRUST & LEGACY FUND

CORPORATE OBLIGATIONS	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
COMMERCIAL PAPER						
Borg Warner Acceptance	\$ 500	0.000	07-01-75	\$ 497,083	\$ 497,083	5.250
TOTAL	\$ 500			\$ 497,083	\$ 497,083	
FINANCIAL						
General Electric Credit	\$ 1,000	4.650	05-15-86	\$ 771,809	\$ 759,400	8.000
Household Finance	500	10.500	09-15-94	\$ 500,000	\$ 525,000	10.500
TOTAL	\$ 1,500			\$ 1,271,809	\$ 1,284,400	
INDUSTRIAL						
Aluminum Co.—America	\$ 1,000	7.450	11-15-96	\$ 870,246	\$ 978,400	7.450
Aluminum Co.—America	2,471	4.375	03-31-88	1,866,256	1,716,110	7.450
American Can	500	7.750	03-15-01	441,556	448,150	7.750
Carnation	870	4.500	02-01-90	678,329	669,291	7.900
Carnation	448	5.000	04-01-91	359,666	355,802	7.900
Continental Oil	835	5.875	12-01-89	700,465	709,750	5.875
FMC Corp.	400	9.500	01-15-00	396,065	406,520	9.500
Goodyear Tire & Rubber	1,000	7.350	09-15-97	859,512	842,400	7.350
Hercules, Inc.	500	8.750	04-01-83	500,000	503,750	8.750
Merck & Co.	500	7.875	06-15-85	500,000	488,750	7.875
Owens Illinois	1,000	7.625	04-01-01	874,716	888,800	7.625
Owens Illinois	880	5.000	02-01-91	706,687	699,072	8.000
Phillip Morris	1,429	4.900	11-01-89	1,134,586	1,131,339	8.250
Phillip Morris	250	8.875	06-01-04	234,976	247,500	9.500
Phillips Petroleum	2,115	5.375	07-01-91	1,754,789	1,732,185	8.000
Scott Paper	500	8.750	01-15-00	500,000	495,000	8.750
G.D. Searle & Co.	300	8.000	06-15-81	299,255	300,750	8.000
Shell Oil Co. Debs	625	5.000	03-15-91	505,612	500,750	7.750
Shell Oil Co. Debs	750	5.000	03-15-91	555,653	600,900	5.000
Shell Oil Co. Debs	800	4.500	04-15-90	625,015	617,760	7.750
Sherwin Williams	500	9.450	12-01-99	500,000	503,150	9.450
Stafac Inc.	148	4.625	04-01-89	110,017	113,550	4.625
Stafac Inc.	135	4.500	09-01-88	100,598	104,803	4.500
Stafac Inc.	209	4.625	03-01-90	152,428	162,804	4.625
Squibb Corp.	200	8.000	06-15-85	200,000	196,500	8.000
Standard Oil—Indiana	500	9.200	07-15-04	500,000	512,500	9.200
Statewide Stations	964	5.375	03-15-96	778,563	771,586	7.270
Stauffer Chemical	500	8.125	06-01-96	459,590	466,250	8.125
Texaco Inc. Debs	850	4.500	12-15-89	653,497	644,810	7.750
Trailer Train	500	8.750	04-01-89	500,000	444,900	8.750
U.S. Gypsum	1,000	7.875	01-01-04	920,642	923,800	7.875
TOTAL	\$ 22,679			\$ 19,238,719	\$ 19,177,632	

TRUST & LEGACY FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
TRANSPORTATION						
Colonial Pipeline	\$ 1,681	4.736	06-01-90	\$ 1,349,132	\$ 1,333,033	4.736
TOTAL	<u>\$ 1,681</u>			<u>\$ 1,349,132</u>	<u>\$ 1,333,033</u>	
PUBLIC UTILITIES						
American Tel & Tel	\$ 2,500	4.750	11-01-92	\$ 1,888,613	\$ 1,665,750	7.490
American Tel & Tel	150	4.750	11-01-92	113,206	99,945	7.490
American Tel & Tel	1,000	5.125	04-01-01	653,106	656,800	7.490
Duke Power	500	8.125	11-01-03	395,730	420,000	10.500
Gulf States Utilities	750	6.625	02-01-96	551,026	585,000	9.600
Hartford Electric	300	5.625	04-01-97	238,770	183,750	7.650
Houston Lighting & Power	1,000	5.250	04-01-96	781,051	670,000	7.450
Houston Lighting & Power	1,000	8.125	02-01-04	900,800	912,500	8.125
Illinois Bell Tel.	1,000	6.000	07-01-98	745,056	749,200	6.000
Indiana Bell Tel.	300	5.500	04-01-07	188,798	196,890	9.200
Monongahela Power	200	5.500	03-01-96	148,759	123,000	8.200
Mountain States Tel & Tel	1,000	5.000	04-01-00	634,653	630,000	8.646
New York State Electric & Gas	200	5.625	01-01-97	157,730	129,260	7.750
Northern States Power	500	9.500	05-01-05	497,507	490,000	9.500
Pacific Gas & Electric	400	5.000	06-01-89	318,503	282,000	7.500
Pacific Gas & Electric	1,000	4.375	06-01-94	706,766	602,500	7.450
Pacific Gas & Electric	300	5.750	12-01-98	242,705	212,250	7.580
Pacific Tel & Tel	1,000	6.000	11-01-02	757,226	715,800	6.000
Southern California Edison	635	5.250	01-15-91	510,800	448,247	7.500
Southern Counties Gas Co.—California	300	4.750	08-01-90	225,463	197,640	7.700
TOTAL	<u>\$ 14,035</u>			<u>\$ 10,656,268</u>	<u>\$ 9,970,532</u>	
TOTAL INVESTMENTS	<u>\$ 74,860</u>			<u>\$ 67,007,762</u>	<u>\$ 63,326,780</u>	

WORKMENS' COMPENSATION FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
CERTIFICATES OF DEPOSIT						
Bank of Montana—Helena	\$ 200	5.50	05-06-76	\$ 200,000	\$ 200,000	5.50
TOTAL	<u>\$ 200</u>			<u>\$ 200,000</u>	<u>\$ 200,000</u>	
MONTANA OBLIGATIONS						
U.C.C. Bonds	\$ 97	5.00	08-01-77	\$ 97,000	\$ 97,000	5.00
TOTAL	<u>\$ 97</u>			<u>\$ 97,000</u>	<u>\$ 97,000</u>	
GOVERNMENT OBLIGATIONS						
U.S. TREASURY						
U.S. Treasury Notes	70	7.750	08-15-77	\$ 69,947	\$ 70,700	7.750
U.S. Treasury Notes	1,600	6.250	08-15-79	1,600,000	1,528,000	6.250
U.S. Treasury Bonds	350	4.000	02-15-80	349,231	303,625	4.000
U.S. Treasury Bonds	25	3.500	11-15-80	25,000	20,905	3.500
U.S. Treasury Bonds	65	3.500	02-15-90	65,000	51,838	3.500
TOTAL	<u>\$ 2,110</u>			<u>\$ 2,109,178</u>	<u>\$ 1,975,068</u>	
FEDERAL AGENCIES						
Federal National Mortgage Assn.	500	4.500	02-10-77	\$ 490,140	\$ 476,850	4.500
International Bank for Reconstruction	400	8.125	08-01-96	\$ 400,000	378,000	8.125
TOTAL	<u>\$ 900</u>			<u>\$ 890,140</u>	<u>\$ 854,850</u>	
CANADIAN OBLIGATIONS						
British Columbia Hydro & Power	500	9.625	06-01-05	\$ 498,753	\$ 505,000	9.625
Manitoba Hydro Electric	500	8.000	10-15-03	495,279	423,750	8.000
Manitoba Hydro Electric	500	9.375	12-01-04	496,322	488,750	9.375
Province of New Brunswick	300	8.375	12-15-98	296,475	261,750	8.400
Province of Ontario	350	7.900	10-15-03	350,000	310,625	7.900
Quebec Hydro Electric	400	8.500	08-01-03	398,126	357,000	8.550
Quebec Hydro Electric	200	8.250	01-01-04	199,050	173,500	8.300
Quebec Hydro Electric	600	10.250	01-15-05	600,000	619,500	10.250
TOTAL	<u>\$ 3,350</u>			<u>\$ 3,334,005</u>	<u>\$ 3,139,875</u>	
CORPORATE OBLIGATIONS						
COMMERCIAL PAPER						
Channelview Construction Trust	300	0.000	07-15-75	\$ 299,063	\$ 299,063	
Ford Motor Credit	500	0.000	07-07-75	499,417	499,417	
Montgomery Ward Credit	900	0.000	08-01-75	894,859	894,859	
TOTAL	<u>\$ 1,700</u>			<u>\$ 1,693,339</u>	<u>\$ 1,693,339</u>	

WORKMENS' COMPENSATION FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
FINANCIAL						
Chemical New York	\$ 200	6.625	04-15-80	\$ 199,286	\$ 188,000	6.722
Commercial Credit	600	7.750	02-15-92	594,917	471,420	7.851
First Bank System	500	6.750	09-15-79	500,000	451,900	6.750
First Chicago	500	6.750	11-01-80	497,500	468,750	6.870
First National Boston	500	6.750	07-15-80	498,999	470,650	6.830
General Motors Acceptance	500	7.850	11-01-98	500,000	450,900	7.850
Honeywell Finance	500	8.200	12-15-98	500,000	400,350	8.200
Industrial National	600	7.400	07-01-81	600,000	567,780	7.400
Manufactures Hanover	500	7.600	09-01-81	500,000	482,500	7.600
Security Pacific	500	7.700	02-15-82	500,000	481,900	7.700
United States National Bank—Oregon	400	7.750	01-15-02	400,000	340,520	7.750
TOTAL	\$ 5,300			\$ 5,290,702	\$ 4,774,670	
INDUSTRIAL						
Carnation	\$ 500	8.500	05-01-99	\$ 498,807	\$ 497,800	8.520
Goodyear Tire & Rubber	400	7.350	09-15-97	400,000	336,960	7.375
Hercules	500	8.750	04-01-83	500,000	503,750	8.750
Kraftco	400	8.375	04-15-04	397,118	392,400	8.440
3M Co.	500	8.200	04-01-85	500,000	503,750	8.200
Mountain Fuel Supply	500	8.750	04-15-99	500,000	500,000	8.750
Pepsico	500	8.625	05-15-81	498,946	503,900	8.670
RCA	500	10.200	08-15-92	500,000	512,500	10.200
G.D. Searle & Co.	300	7.500	12-01-80	300,816	294,750	7.430
Shell Oil	600	7.250	02-15-02	600,000	528,000	7.250
Sherwin Williams	500	9.450	12-01-99	500,000	503,150	9.450
Standard Oil—Indiana	300	6.000	09-15-91	290,654	241,350	6.368
Systems Building	481	8.000	07-01-97	480,513	480,754	8.000
Westvaco	500	9.750	04-01-00	500,000	518,150	9.750
TOTAL	\$ 6,481			\$ 6,456,854	\$ 6,317,214	
TRANSPORTATION						
Burlington Northern	\$ 200	8.600	01-15-99	\$ 200,000	\$ 174,500	8.600
Mobil Alaska Pipeline	500	8.450	03-01-05	500,000	486,850	8.450
TOTAL	\$ 700			\$ 700,000	\$ 661,350	
PUBLIC UTILITIES						
American Tel. & Tel.	\$ 300	4.375	04-01-85	\$ 261,645	\$ 225,600	6.551
American Tel. & Tel.	1,800	4.625	02-01-94	1,417,973	1,166,220	6.801
American Tel. & Tel.	850	4.750	06-01-98	662,098	534,820	6.815
American Tel. & Tel.	300	7.750	12-01-77	300,264	299,970	7.670
American Tel. & Tel.	300	7.000	02-15-01	298,079	252,750	7.060

WORKMENS' COMPENSATION FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
PUBLIC UTILITIES						
American Tel. & Tel.	\$ 500	7.125	12-01-03	\$ 498,853	\$ 498,850	7.150
American Tel. & Tel.	500	8.800	05-15-05	500,000	503,100	8.800
Carolina Tel. & Tel.	220	8.100	11-01-03	220,000	197,450	8.100
Central Tel.	276	8.000	07-01-94	276,474	239,430	7.979
Florida Power & Light	500	8.500	01-01-04	503,099	437,500	8.444
Indianapolis Power & Light	34	8.000	10-01-75	34,000	34,000	8.000
Kansas Nebraska Natural Gas	292	8.450	08-01-91	292,000	257,690	8.450
Kentucky Power	300	7.875	09-01-02	300,000	241,890	7.875
Michigan Bell Tel.	400	4.625	08-01-96	309,725	244,520	6.801
Minneapolis Gas	600	7.875	12-01-96	600,000	502,500	7.875
Montana Dakota Utilities	400	7.625	10-15-92	388,406	335,000	7.950
New England Tel.	300	6.375	09-01-08	300,900	223,290	6.349
New York Tel.	450	7.500	03-01-09	456,069	379,710	7.374
Northern Indiana Public Service	150	6.375	09-01-97	114,675	115,695	6.350
Northern Indiana Public Service	500	10.400	09-01-04	500,000	530,000	10.400
Northern Natural Gas	600	7.375	05-01-92	600,000	498,780	7.375
Ohio Bell Tel.	350	6.750	07-01-08	351,197	274,750	6.719
Ohio Edison	200	9.250	05-01-00	200,740	197,760	9.205
Pacific Tel. & Tel.	350	6.000	11-01-02	351,965	250,530	6.000
Pacific Tel. & Tel.	200	6.000	11-01-02	144,648	143,160	6.000
Pacific Tel. & Tel.	150	7.800	03-01-07	150,000	132,000	7.800
Southern New England Tel.	306	7.750	06-01-04	309,063	265,853	7.750
Southwestern Bell Tel.	450	8.250	09-01-05	454,808	421,650	8.139
Southwestern Bell Tel.	100	8.750	08-01-07	100,435	97,890	8.750
TOTAL	\$ 11,678			\$ 10,897,116	\$ 9,502,358	
MORTGAGES	\$ 697			\$ 697,148	\$ 697,148	
TOTAL INVESTMENTS	\$ 33,213			\$ 32,375,482	\$ 29,912,872	

CAPITOL BUILDING FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
GOVERNMENT OBLIGATIONS						
FEDERAL AGENCIES						
Federal National Mortgage Assn.	\$ 50	10.000	06-10-76	\$ 50,101	\$ 51,125	9.300
Federal National Mortgage Assn.	50	6.500	06-10-77	47,665	49,125	9.740
TOTAL INVESTMENTS	<u>\$ 100</u>			<u>\$ 97,766</u>	<u>\$ 100,250</u>	

SHERIFF'S RETIREMENT FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
GOVERNMENT OBLIGATIONS						
U.S. GOVERNMENT GUARANTEED						
El Paso Columbia Tanker MM	\$ 250	9.250	03-31-03	\$ 250,000	\$ 270,000	9.250
TOTAL	<u>\$ 250</u>			<u>\$ 250,000</u>	<u>\$ 270,000</u>	
CORPORATE OBLIGATIONS						
INDUSTRIAL						
Halliburton	\$ 100	9.250	04-01-00	\$ 99,505	\$ 102,750	9.250
3M Co.	100	8.850	04-01-05	100,000	101,000	8.850
TOTAL	<u>\$ 200</u>			<u>\$ 199,505</u>	<u>\$ 203,750</u>	
PUBLIC UTILITIES						
Cincinnati Gas & Electric	\$ 200	9.850	05-01-05	\$ 200,000	\$ 205,500	9.850
TOTAL	<u>\$ 200</u>			<u>\$ 200,000</u>	<u>\$ 205,500</u>	
SHORT TERM INVESTMENT POOL						
	\$ 375			\$ 374,665	\$ 374,665	
TOTAL INVESTMENTS	<u>\$ 1,025</u>			<u>\$ 1,024,170</u>	<u>\$ 1,053,915</u>	

LIVESTOCK COMMISSION FUND

GOVERNMENT OBLIGATIONS	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
FEDERAL AGENCIES						
Federal Land Banks	\$ 60	5.375	07-20-76	\$ 59,944	\$ 58,875	5.375
Federal Land Banks	30	5.125	04-20-78	29,517	27,975	5.125
Federal Land Banks	30	5.000	01-22-79	29,206	27,263	5.000
Federal Land Banks	30	5.000	01-22-79	28,676	27,263	5.000
TOTAL	<u>\$ 150</u>			<u>\$ 147,343</u>	<u>\$ 141,376</u>	
SHORT TERM INVESTMENT POOL	<u>\$ 172</u>			<u>\$ 172,115</u>	<u>\$ 172,115</u>	
TOTAL INVESTMENTS	<u>\$ 322</u>			<u>\$ 319,458</u>	<u>\$ 313,491</u>	

LIVESTOCK BOARD EMERGENCY FUND

GOVERNMENT OBLIGATIONS	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
U.S. TREASURY						
U.S. Treasury Notes	\$ 5	8.000	02-15-77	\$ 5,000	\$ 5,063	8.000
U.S. Treasury Bonds	25	4.000	02-15-80	25,080	21,625	4.000
U.S. Treasury Bonds	4	4.000	02-15-80	3,990	3,460	4.000
U.S. Treasury Bonds	40	3.250	06-15-83	40,000	32,000	3.250
TOTAL	<u>\$ 74</u>			<u>\$ 74,070</u>	<u>\$ 62,148</u>	
FEDERAL AGENCIES						
Federal Land Banks	\$ 2	5.375	07-20-76	\$ 1,993	\$ 1,963	5.375
Federal Land Banks	2	5.375	07-20-76	1,998	1,963	5.375
Federal Land Banks	19	5.000	01-22-79	18,982	17,266	5.000
TOTAL	<u>\$ 23</u>			<u>\$ 22,973</u>	<u>\$ 21,192</u>	
SHORT TERM INVESTMENT POOL	<u>\$ 35</u>			<u>\$ 35,367</u>	<u>\$ 35,367</u>	
TOTAL INVESTMENTS	<u>\$ 132</u>			<u>\$ 132,410</u>	<u>\$ 118,707</u>	

WATER WELL FUND

GOVERNMENT OBLIGATIONS	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
U.S. TREASURY						
U.S. Treasury Notes	\$ 8	7.750	08-15-77	\$ 8,000	\$ 8,075	7.750
TOTAL INVESTMENTS	<u>\$ 8</u>			<u>\$ 8,000</u>	<u>\$ 8,075</u>	49

COSMETOLOGY BOARD FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
GOVERNMENT OBLIGATIONS						
FEDERAL AGENCIES						
Federal Land Banks	\$ 5	5.125	04-20-78	\$ 4,894	\$ 4,663	5.125
TOTAL INVESTMENTS	<u>\$ 5</u>			<u>\$ 4,894</u>	<u>\$ 4,663</u>	

NORTHERN MONTANA COLLEGE 1960 SERIES B RESERVE FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
GOVERNMENT OBLIGATIONS						
FEDERAL AGENCIES						
Federal Land Banks	\$ 10	5.375	07-20-76	\$ 9,982	\$ 9,813	5.375
Federal Land Banks	14	5.000	01-22-79	13,870	12,723	5.000
TOTAL INVESTMENTS	<u>\$ 24</u>			<u>\$ 23,852</u>	<u>\$ 22,536</u>	

UNIVERSITY OF MONTANA FIELD HOUSE FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
CERTIFICATES OF DEPOSIT						
First State Bank—Froid	\$ 8	6.500	03-12-76	\$ 8,000	\$ 8,000	6.500
TOTAL	<u>\$ 8</u>			<u>\$ 8,000</u>	<u>\$ 8,000</u>	
GOVERNMENT OBLIGATIONS						
U.S. TREASURY						
U.S. Treasury Bills	\$ 50	0.000	03-09-76	\$ 47,210	\$ 47,210	5.550
U.S. Treasury Notes	46	6.250	02-15-78	46,000	44,879	6.250
U.S. Treasury Bonds	7	4.000	02-15-80	6,167	6,055	4.000
U.S. Treasury Bonds	4	4.000	02-15-80	3,292	3,460	4.000
U.S. Treasury Bonds	4	3.250	06-15-83	3,808	3,200	3.250
TOTAL	<u>\$ 111</u>			<u>\$ 106,477</u>	<u>\$ 104,804</u>	
TOTAL INVESTMENTS	<u>\$ 119</u>			<u>\$ 114,477</u>	<u>\$ 112,804</u>	

VOLUNTEER FIREMANS' FUND

GOVERNMENT OBLIGATIONS	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
U.S. TREASURY						
U.S. Treasury Notes	65	6.250	08-15-79	\$ 65,000	\$ 62,075	6.250
U.S. Treasury Bonds	35	3.500	11-15-80	34,539	29,267	3.854
U.S. Treasury Bonds	50	3.500	11-15-80	49,082	41,810	3.990
U.S. Treasury Bonds	30	3.500	11-15-98	30,000	24,075	3.500
TOTAL	180			\$ 178,621	\$ 157,227	
CORPORATE OBLIGATIONS						
COMMERCIAL PAPER						
Travelers	100	0.000	07-01-75	\$ 99,635	\$ 99,635	5.250
TOTAL	100			\$ 99,635	\$ 99,635	
FINANCIAL						
Chrysler Financial	65	7.000	08-15-79	\$ 64,856	\$ 48,425	7.060
Sears & Roebuck Acceptance	200	8.375	12-31-86	199,614	205,500	8.375
TOTAL	265			\$ 264,470	\$ 253,925	
INDUSTRIAL						
Owens Illinois	150	9.350	11-01-99	\$ 150,000	\$ 152,250	9.350
TOTAL	150			\$ 150,000	\$ 152,250	
TRANSPORTATION						
Southern Railway	100	7.000	01-15-81	\$ 100,000	\$ 94,100	7.000
TOTAL	100			\$ 100,000	\$ 94,100	
PUBLIC UTILITIES						
Central Tel.-Florida	50	7.650	02-01-97	\$ 50,000	\$ 41,065	7.650
Indianapolis Power & Light	91	8.000	10-01-75	91,009	91,000	7.946
Northern States Power	100	7.375	03-01-02	100,267	84,380	7.349
Public Service Electric & Gas	75	7.750	08-15-96	75,000	56,910	7.750
Wisconsin Tel.	240	7.250	02-01-07	242,714	200,400	7.149
TOTAL	556			\$ 558,990	\$ 473,755	
SHORT TERM INVESTMENT POOL						
	9			\$ 9,087	\$ 9,087	
TOTAL INVESTMENTS	1,360			\$ 1,360,803	\$ 1,239,979	

UNIVERSITY OF MONTANA
POOL FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
GOVERNMENT OBLIGATIONS						
U.S. TREASURY						
U.S. Treasury Bills	15	0.000	03-09-76	\$ 14,163	\$ 14,163	5.550
U.S. Treasury Bonds	2	4.000	02-15-80	1,911	1,730	4.000
U.S. Treasury Bonds	1	4.000	02-15-80	940	865	4.000
U.S. Treasury Bonds	2	3.250	06-15-83	1,904	1,600	3.250
TOTAL INVESTMENTS	<u>20</u>			<u>\$ 18,918</u>	<u>\$ 18,358</u>	

NORTHERN MONTANA COLLEGE
HOUSING & DINING FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
GOVERNMENT OBLIGATIONS						
U.S. TREASURY						
U.S. Treasury Bills	105	0.000	08-28-75	\$ 102,017	\$ 102,017	5.650
TOTAL INVESTMENTS	<u>105</u>			<u>\$ 102,017</u>	<u>\$ 102,017</u>	

MONTANA STATE UNIVERSITY
STUDENT HOUSING FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
GOVERNMENT OBLIGATIONS						
U.S. TREASURY						
U.S. Treasury Bills	110	0.000	07-01-75	\$ 109,358	\$ 109,358	5.000
U.S. Treasury Bonds	163	0.000	08-14-75	161,653	161,653	4.800
TOTAL INVESTMENTS	<u>273</u>			<u>\$ 271,011</u>	<u>\$ 271,011</u>	

MONTANA STATE UNIVERSITY
PHYSICAL EDUCATION FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
GOVERNMENT OBLIGATIONS						
U.S. TREASURY						
U.S. Treasury Bills	12	0.000	08-14-75	\$ 11,901	\$ 11,901	4.800
U.S. Treasury Notes	130	5.750	05-15-76	130,000	128,822	5.750
TOTAL INVESTMENTS	142			\$ 141,901	\$ 140,723	

LONG RANGE BUILDING SINKING FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
CERTIFICATES OF DEPOSIT						
Midland National Bank—Billings	272	8.250	12-10-75	\$ 272,000	\$ 272,000	8.250
Northwestern Bank—Great Falls	200	9.750	09-12-75	200,000	200,000	9.750
TOTAL	472			\$ 472,000	\$ 472,000	
GOVERNMENT OBLIGATIONS						
U.S. TREASURY						
U.S. Treasury Notes	1,000	6.000	11-15-78	\$ 1,000,000	\$ 957,500	6.000
TOTAL	1,000			\$ 1,000,000	\$ 957,500	
FEDERAL AGENCIES						
Federal Home Loan Corp.	500	7.050	08-25-76	\$ 500,000	\$ 430,000	7.050
Federal Intermediate Credit Banks	1,500	8.700	04-04-77	1,500,000	1,530,000	8.700
Federal National Mortgage Assn.	125	7.500	09-10-76	125,000	125,625	7.500
TOTAL	2,125			\$ 2,125,000	\$ 2,135,625	
TOTAL INVESTMENTS	3,597			\$ 3,597,000	\$ 3,565,125	

LONG RANGE BUILDING FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
GOVERNMENT OBLIGATIONS						
U.S. TREASURY						
U.S. Treasury Notes	\$ 500	6.000	11-15-78	\$ 499,586	\$ 478,750	6.031
TOTAL	<u>\$ 500</u>			<u>\$ 499,586</u>	<u>\$ 478,750</u>	
FEDERAL AGENCIES						
Federal Land Banks	\$ 600	5.375	07-20-76	\$ 596,152	\$ 588,750	6.075
TOTAL	<u>\$ 600</u>			<u>\$ 596,152</u>	<u>\$ 588,750</u>	
SHORT TERM INVESTMENT POOL						
	\$ 7,200			\$ 7,228,340	\$ 7,228,340	
TOTAL INVESTMENTS	<u>\$ 8,300</u>			<u>\$ 8,324,078</u>	<u>\$ 8,295,840</u>	

DIXON ENDOWMENT FUND

	SHARES	DIVIDEND	COST	MARKET VALUE	YIELD
PREFERRED STOCK					
Montana Power No. 6 Series Shares	640	6.000	\$ -0-	\$ 39,456	6.000
TOTAL INVESTMENTS			<u>\$ -0-</u>	<u>\$ 39,456</u>	

GAME WARDENS' RETIREMENT FUND

GOVERNMENT OBLIGATIONS	PAR VALUE	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
FEDERAL AGENCIES						
Federal National Mortgage Assn.	\$ 25	5.200	01-19-82	\$ 25,000	\$ 21,155	5.200
TOTAL	<u>\$ 25</u>			<u>\$ 25,000</u>	<u>\$ 21,155</u>	
CANADIAN OBLIGATIONS						
Nova Scotia Power	\$ 125	8.125	07-15-98	\$ 124,689	\$ 107,813	8.150
TOTAL	<u>\$ 125</u>			<u>\$ 124,689</u>	<u>\$ 107,813</u>	
CORPORATE OBLIGATIONS						
FINANCIAL						
Chrysler Financial	\$ 10	7.000	08-15-79	\$ 9,978	\$ 7,450	7.060
Commercial Credit	40	7.750	02-15-92	39,661	31,428	7.851
Ford Motor Credit	20	7.250	05-01-79	20,077	19,426	7.150
International Harvester Credit	40	7.500	01-15-94	39,823	31,636	7.550
Northwest Bancorporation	20	7.750	03-15-03	20,000	17,200	7.750
TOTAL	<u>\$ 130</u>			<u>\$ 129,539</u>	<u>\$ 107,140</u>	
INDUSTRIAL						
Atlantic Richfield	\$ 25	7.750	12-15-03	\$ 25,000	\$ 22,753	7.750
Cummins Engine	20	7.400	04-01-97	20,000	17,400	7.400
3M Co.	100	8.850	04-01-05	100,000	102,000	8.850
RCA	25	10.200	08-15-92	25,000	25,625	10.200
TOTAL	<u>\$ 170</u>			<u>\$ 170,000</u>	<u>\$ 167,778</u>	
TRANSPORTATION						
Denver Rio Grande	\$ 35	7.250	11-01-82	\$ 35,272	\$ 35,298	7.100
Natural Gas Pipeline—America	25	8.350	99-01-93	25,000	21,185	8.350
TOTAL	<u>\$ 60</u>			<u>\$ 60,272</u>	<u>\$ 56,483</u>	
PUBLIC UTILITIES						
American Tel & Tel	\$ 140	4.375	05-01-99	\$ 140,485	\$ 82,334	4.347
American Tel & Tel	10	4.375	05-01-99	10,020	5,881	4.360
American Tel & Tel	20	8.750	05-15-00	19,581	20,250	8.980
Carolina Tel & Tel	25	8.100	11-01-03	25,000	22,438	8.100
Chesapeake Potomac Tel—Maryland	20	6.625	10-01-08	20,061	15,500	6.599
Detroit Edison	50	7.375	11-15-01	49,334	34,000	7.501
Detroit Edison	30	9.875	05-01-04	29,783	25,350	9.950
Duquesne Light	20	7.000	01-01-99	19,915	15,721	7.000
General Tel—California	20	4.500	03-01-95	20,000	11,450	4.500
General Tel—Northwest	50	7.875	05-01-02	50,394	41,375	7.798

GAME WARDENS' RETIREMENT FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
PUBLIC UTILITIES						
Kansas City Power & Light	\$ 25	5.750	05-15-97	\$ 25,076	\$ 17,750	5.723
Montana Power	10	2.875	10-01-75	9,941	9,888	5.680
Montana Power	30	8.625	03-01-04	30,077	28,464	8.600
Mountain States Tel & Tel	50	5.000	04-01-00	51,686	31,500	4.749
Mountain States Tel & Tel	25	6.000	08-01-07	25,000	17,813	5.950
Mountain States Tel & Tel	25	7.750	06-01-13	25,000	22,125	7.750
Ohio Bell Tel	45	6.750	12-01-07	45,202	35,325	6.713
Pacific Northwest Bell Tel	25	6.750	10-01-10	25,309	19,625	6.649
Pacific Northwest Bell Tel	40	8.625	05-01-02	42,193	37,792	8.115
Potomac Electric Power	50	5.875	05-01-96	41,300	33,500	7.500
Public Service—Colorado	25	5.375	08-01-03	25,000	16,938	5.375
Southern Bell Tel.	25	4.375	06-01-08	24,950	13,813	4.388
Southwestern Bell Tel	15	6.750	09-01-05	15,553	11,814	6.459
Southwestern Bell Tel	20	8.250		20,448	18,740	8.036
TOTAL	<u>\$ 795</u>			<u>\$ 791,308</u>	<u>\$ 589,386</u>	
MORTGAGES						
	<u>\$ 142</u>			<u>\$ 141,884</u>	<u>\$ 141,884</u>	
SHORT TERM INVESTMENT POOL						
	<u>\$ 114</u>			<u>\$ 113,883</u>	<u>\$ 113,883</u>	
TOTAL INVESTMENTS	<u><u>\$ 1,561</u></u>			<u><u>\$ 1,556,575</u></u>	<u><u>\$ 1,305,522</u></u>	

SOCIAL SECURITY FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
GOVERNMENT OBLIGATIONS						
FEDERAL AGENCIES						
Federal Land Banks	\$ 100	5.375	07-20-76	\$ 99,429	\$ 98,125	5.800
Federal Land Banks	300	5.375	07-20-76	298,919	294,375	5.375
TOTAL	<u>400</u>			<u>\$ 398,348</u>	<u>\$ 392,500</u>	
CORPORATE OBLIGATIONS						
BANKERS' ACCEPTANCES						
First National City Bank—Los Angeles	\$ 3,000	0.000	08-15-75	\$ 2,960,688	\$ 2,960,688	5.550
Northwestern National Bank—Minneapolis	2,000	0.000	08-12-75	1,971,569	1,971,569	5.750
TOTAL	<u>5,000</u>			<u>\$ 4,932,257</u>	<u>\$ 4,932,257</u>	
COMMERCIAL PAPER						
First Bank Systems	\$ 1,000	0.000	08-15-75	\$ 990,781	\$ 990,781	5.625
Goodyear Finance	500	0.000	08-15-75	495,670	495,670	5.375
Gulf Oil Financial	700	0.000	08-15-75	694,288	694,288	5.875
TOTAL	<u>2,200</u>			<u>\$ 2,180,739</u>	<u>\$ 2,180,739</u>	
PUBLIC UTILITIES						
General Tel.—Kentucky	\$ 500	7.750	10-01-01	\$ 497,266	\$ 402,500	7.804
TOTAL	<u>500</u>			<u>\$ 497,266</u>	<u>\$ 402,500</u>	
TOTAL INVESTMENTS	<u>8,100</u>			<u>\$ 8,008,610</u>	<u>\$ 7,907,996</u>	

MONTANA JUDGES' RETIREMENT FUND

CORPORATE OBLIGATIONS	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
FINANCIAL						
Commercial Credit	25	7.750	02-15-92	\$ 24,788	\$ 19,643	7.851
Ford Motor Credit	25	7.250	05-01-79	25,096	24,283	7.150
Northwest Bancorporation	60	7.750	03-15-03	60,000	51,600	7.750
TOTAL	<u>110</u>			<u>\$ 109,884</u>	<u>\$ 95,526</u>	
INDUSTRIAL						
Atlantic Richfield	25	7.750	12-15-03	\$ 25,000	\$ 22,753	7.750
Cummins Engine	40	7.400	04-01-97	40,000	34,800	7.400
3M Co.	100	8.850	04-01-05	100,000	102,000	8.850
RCA	25	10.200	08-15-92	25,000	25,625	10.200
TOTAL	<u>190</u>			<u>\$ 190,000</u>	<u>\$ 185,178</u>	
TRANSPORTATION						
Denver Rio Grande	30	7.250	11-01-82	\$ 30,233	\$ 30,233	7.100
Lakehead Pipeline	15	7.600	06-15-97	15,000	11,768	7.600
TOTAL	<u>45</u>			<u>\$ 45,233</u>	<u>\$ 42,001</u>	
PUBLIC UTILITIES						
American Tel. & Tel.	25	8.750	05-15-00	\$ 24,474	\$ 25,313	8.980
Carolina Tel. & Tel.	25	8.100	11-01-03	25,000	22,438	8.100
Chesapeake Potomac Tel.—Maryland	30	6.625	10-01-08	30,093	23,250	6.599
Connecticut Light & Power	35	6.500	01-01-98	35,000	24,850	6.500
Detroit Edison	50	7.375	11-15-01	49,340	34,000	7.501
Detroit Edison	30	9.875	05-01-04	29,783	25,350	9.950
Duquesne Light	35	7.000	01-01-99	34,852	27,521	7.040
Hawaiian Electric	50	8.350	12-01-03	50,000	41,375	8.350
Montana Power	25	8.625	03-01-04	25,064	23,720	8.600
Mountain States Tel. & Tel.	100	6.000	08-01-07	100,000	71,250	6.000
Mountain States Tel. & Tel.	90	6.000	08-01-07	90,000	64,125	5.950
Mountain States Tel. & Tel.	20	7.750	06-01-13	20,000	17,700	7.750
Northwestern Bell Tel.	15	7.000	01-01-09	15,000	12,095	7.000
Ohio Bell Tel.	38	6.750	07-01-08	38,170	29,830	6.713
Pacific Northwest Bell Tel.	35	6.750	12-01-07	35,736	27,475	6.580
United Tel.—Ohio	30	7.600	08-01-02	30,000	24,300	7.600
TOTAL	<u>633</u>			<u>\$ 632,512</u>	<u>\$ 494,592</u>	
MORTGAGES						
	185			\$ 184,935	\$ 184,935	
SHORT TERM INVESTMENT POOL						
	82			\$ 82,283	\$ 82,283	
TOTAL INVESTMENTS	<u>1,245</u>			<u>\$ 1,244,847</u>	<u>\$ 1,084,515</u>	

HAIL INSURANCE FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
GOVERNMENT OBLIGATIONS						
FEDERAL AGENCIES						
Federal Land Banks	\$ 450	5.375	07-20-76	\$ 450,000	\$ 442,125	5.375
Federal Land Banks	200	6.350	10-20-77	200,048	195,500	6.350
TOTAL	<u>\$ 650</u>			<u>\$ 650,048</u>	<u>\$ 637,625</u>	
CORPORATE OBLIGATIONS						
INDUSTRIAL						
Firestone Tire & Rubber	\$ 350	7.300	10-15-01	\$ 350,000	\$ 302,820	7.300
TOTAL	<u>\$ 350</u>			<u>\$ 350,000</u>	<u>\$ 302,820</u>	
SHORT TERM INVESTMENT POOL						
	\$ 974			\$ 973,603	\$ 973,603	
TOTAL INVESTMENTS	<u>\$ 1,974</u>			<u>\$ 1,973,651</u>	<u>\$ 1,914,048</u>	

OCCUPATIONAL DISEASE FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
CORPORATE OBLIGATIONS						
FINANCIAL						
Chrysler Financial	\$ 25	7.000	08-15-79	\$ 24,945	\$ 21,563	7.060
TOTAL	<u>\$ 25</u>			<u>\$ 24,945</u>	<u>\$ 21,563</u>	
PUBLIC UTILITIES						
Public Service Electric & Gas	\$ 9	7.750	08-15-96	\$ 9,000	\$ 7,650	7.750
Southern Natural Gas	50	6.875	04-01-79	49,889	47,275	6.952
TOTAL	<u>\$ 59</u>			<u>\$ 58,889</u>	<u>\$ 54,925</u>	
TOTAL INVESTMENTS	<u>\$ 84</u>			<u>\$ 83,834</u>	<u>\$ 76,488</u>	

SUBSEQUENT INJURY FUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
GOVERNMENT OBLIGATIONS						
U.S. TREASURY						
U.S. Treasury Notes	\$ 27	6.250	08-15-79	\$ 27,000	\$ 25,718	6.250
U.S. Treasury Notes	8	6.250	08-15-79	8,040	7,620	6,100
TOTAL	<u>\$ 35</u>			<u>\$ 35,040</u>	<u>\$ 33,338</u>	
CORPORATE OBLIGATIONS						
FINANCIAL						
Sears Roebuck Acceptance	\$ 375	8.375	12-31-86	\$ 374,277	\$ 376,875	8.375
TOTAL	<u>\$ 375</u>			<u>\$ 374,277</u>	<u>\$ 376,875</u>	
INDUSTRIAL						
Owens Illinois	\$ 100	9.350	11-01-99	\$ 100,000	\$ 101,500	9.350
TOTAL	<u>\$ 100</u>			<u>\$ 100,000</u>	<u>\$ 101,500</u>	
PUBLIC UTILITIES						
Public Service Electric & Gas	\$ 6	7.750	08-15-96	\$ 6,000	\$ 5,097	7.750
TOTAL	<u>\$ 6</u>			<u>\$ 6,000</u>	<u>\$ 5,097</u>	
SHORT TERM INVESTMENT POOL						
	\$ 43			\$ 43,482	\$ 43,482	
TOTAL INVESTMENTS	<u>\$ 559</u>			<u>\$ 558,799</u>	<u>\$ 560,292</u>	

HIGHWAY PATROL RETIREMENT FUND

GOVERNMENT OBLIGATIONS	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
U.S. TREASURY						
U.S. Treasury Notes	\$ 310	7.500	08-15-76	\$ 310,000	\$ 311,922	7.500
U.S. Treasury Notes	28	6.250	08-15-79	28,000	26,740	6.250
TOTAL	<u>\$ 338</u>			<u>\$ 338,000</u>	<u>\$ 338,662</u>	
FEDERAL AGENCIES						
Farmers Home Administration	\$ 54	8.750	02-24-95	\$ 53,871	\$ 54,470	8.750
TOTAL	<u>\$ 54</u>			<u>\$ 53,871</u>	<u>\$ 54,470</u>	
CORPORATE OBLIGATIONS						
FINANCIAL						
First Bank System	100	6.750	09-15-79	\$ 100,000	\$ 90,380	6.750
International Harvester Credit	100	7.500	01-15-94	99,558	79,090	7.550
Northwest Bancorporation	45	7.750	03-15-03	45,000	38,700	7.750
TOTAL	<u>\$ 245</u>			<u>\$ 244,558</u>	<u>\$ 208,170</u>	
INDUSTRIAL						
Atlantic Richfield	35	7.750	12-15-03	\$ 35,000	\$ 31,854	7.750
Cummins Engine	125	7.400	04-01-97	125,000	108,750	7.400
3M Co.	200	8.850	04-01-05	200,000	204,000	8.850
RCA	25	10.200	08-15-92	25,000	25,625	10.200
Sherwin Williams	120	9.450	12-01-99	120,000	120,756	9.450
TOTAL	<u>\$ 505</u>			<u>\$ 505,000</u>	<u>\$ 490,985</u>	
TRANSPORTATION						
Denver Rio Grande	35	7.250	11-01-82	\$ 35,272	\$ 35,000	7.100
Lakehead Pipeline	35	7.600	06-15-97	35,000	27,300	7.600
Natural Gas Pipeline—America	40	8.350	09-01-93	40,000	35,000	8.350
Southern Railway	200	7.000	01-15-81	200,000	200,000	7.000
TOTAL	<u>\$ 310</u>			<u>\$ 310,272</u>	<u>\$ 297,300</u>	
PUBLIC UTILITIES						
Alabama Power	40	7.875	04-01-02	\$ 40,742	\$ 31,300	7.700
American Tel & Tel	25	8.700	12-01-02	25,000	25,000	8.700
American Tel & Tel	20	7.000	02-15-01	19,871	16,850	7.060
Baltimore Gas & Electric	20	6.125	08-01-97	18,436	14,550	6.939
California Electric Power	100	5.125	05-01-90	82,637	69,380	7.214
Carolina Tel & Tel	50	8.100	11-01-03	50,000	44,875	8.100
Chesapeake Potomac Tel—Maryland	15	6.625	10-01-08	15,044	11,625	6.599
Detroit Edison	10	8.125	06-15-01	9,956	7,375	8.170

HIGHWAY PATROL RETIREMENT FUND

PUBLIC UTILITIES	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
Detroit Edison	\$ 40	9.875	05-01-04	\$ 39,711	\$ 33,800	9.950
General Tel—Northwest	40	7.875	05-01-02	40,315	33,100	7.798
Hartford Electric	50	5.625	04-01-97	41,817	30,625	7.248
Kansas City Power & Light	17	9.125	06-01-00	16,894	16,640	9.199
Metropolitan Edison	200	5.750	06-01-96	166,014	127,260	7.508
Michigan Bell Tel	100	6.375	02-01-05	106,627	75,380	6.319
Michigan Bell Tel	10	7.750	06-01-11	9,993	8,803	7.800
Montana Power	45	8.625	03-01-04	45,115	42,696	8.600
Mountain States Tel & Tel	50	7.750	06-01-13	50,000	44,250	7.750
Northern States Power	100	7.375	03-01-02	100,270	84,380	7.349
Northwestern Bell Tel	30	7.000	01-01-09	30,189	24,189	6.944
Pacific Northwest Bell Tel	28	7.750	08-01-09	28,000	24,850	7.750
Pacific Tel & Tel	65	6.500	07-01-03	65,783	49,647	6.391
Potomac Electric Power	50	5.875	05-01-02	41,300	33,500	7.500
Public Service—New Hampshire	125	7.125	11-01-98	118,984	90,625	7.600
Public Service Electric & Gas	80	7.750	08-15-96	80,000	60,704	7.750
Public Service Electric & Gas	30	7.750	08-15-96	30,292	22,764	7.647
United Tel—Ohio	15	7.600	08-01-02	15,000	12,150	7.600
Wisconsin Public Service	45	8.250	05-01-01	45,215	38,700	8.199
TOTAL	\$ 1,400			\$ 1,327,205	\$ 1,075,015	
SHORT TERM INVESTMENT POOL	\$ 183			\$ 182,870	\$ 182,870	
TOTAL INVESTMENTS	\$ 3,035			\$ 2,961,776	\$ 2,647,472	

TEACHERS' RETIREMENT FULLAM FUND

CORPORATE OBLIGATIONS

FINANCIAL

AVCO Financial CV

TOTAL

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD*
	\$ 1,800	5.500	11-30-93	\$ -0-	\$ 810	6.631
	\$ 1,800			\$ -0-	\$ 810	

COMMON STOCK

American Express

Bank of America

Iowa Public Service

Mississippi Valley Gas

Montana Power

George Putnam Fund

Southern California Edison

Southern Union Gas

Technology Fund

U.S. Steel

TOTAL

SHARES DIVIDEND

105	.80	\$ -0-	4,515	1.860
62	1.48	\$ -0-	2,775	3.310
63	1.52	\$ -0-	1,063	9.010
45	1.20	\$ -0-	596	9.060
75	1.80	\$ -0-	2,044	6.600
6	0.48	\$ -0-	72	4.000
117	1.68	\$ -0-	2,428	8.100
78	1.60	\$ -0-	2,360	5.290
19	0.12	\$ -0-	116	1.970
37	2.80	\$ -0-	2,266	4.570
		\$ -0-	\$ 18,235	

SHORT TERM INVESTMENT POOL

TOTAL INVESTMENTS

\$ 1,013	\$ 1,013
\$ 2,813	\$ 20,058

*Market Yield

TRUST CONTRACTORS' LICENSE REFUND

	PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
GOVERNMENT OBLIGATIONS						
U.S. TREASURY						
U.S. Treasury Bills	\$ 1,475	0.000	02-10-76	\$ 1,396,745	\$ 1,396,745	5.350
U.S. Treasury Bills	1,500	0.000	04-06-76	1,401,536	1,401,536	6.510
TOTAL INVESTMENTS	<u>\$ 2,975</u>			<u>\$ 2,798,281</u>	<u>\$ 2,798,281</u>	

RESOURCE INDEMNITY FUND

GOVERNMENT OBLIGATIONS FEDERAL AGENCIES

Federal National Mortgage Assn.

TOTAL

PAR VALUE (000)	INTEREST RATE	MATURITY DATE	COST	MARKET VALUE	YIELD
\$ 250	9.700	09-10-81	\$ 250,000	\$ 267,188	9.700
\$ 250			\$ 250,000	\$ 267,188	

CANADIAN OBLIGATIONS

Quebec Hydro Electric

TOTAL

\$ 100	10.250	01-15-05	\$ 100,000	\$ 103,900	10.250
\$ 100			\$ 100,000	\$ 103,000	

CORPORATE OBLIGATIONS FINANCIAL

General Electric Credit
General Motors Acceptance
Manufacturers Hanover

TOTAL

\$ 500	8.875	06-01-82	\$ 500,000	\$ 507,500	8.875
350	8.875	06-01-99	348,743	346,500	8.910
500	8.375	12-01-82	500,000	497,500	8.375
\$ 1,350			\$ 1,348,743	\$ 1,351,500	

INDUSTRIAL

† Ingersoll Rand
† Sybron Corp.

TOTAL

\$ 200	8.750	05-01-85	\$ 199,410	\$ 203,000	8.790
500	9.125	05-01-85	500,000	505,000	9.125
\$ 700			\$ 699,410	\$ 708,000	

PUBLIC UTILITIES

Northern Natural Gas

TOTAL

\$ 500	9.000	05-01-85	\$ 497,532	\$ 508,750	9.074
\$ 500			\$ 497,532	\$ 508,750	

SHORT TERM INVESTMENT POOL

TOTAL INVESTMENTS

\$ 384			\$ 383,976	\$ 383,976	
\$ 3,284			\$ 3,279,561	\$ 3,322,414	

SHORT TERM INVESTMENT POOL*

	PAR VALUE	COST	MARKET VALUE
Common School Interest & Income Fund	\$ 5,378,438	\$ 5,378,438	\$ 5,378,438
Federal Revenue Sharing—Capitol Const. Fund	\$ 4,189,963	\$ 4,189,963	\$ 4,189,963
Land & Resource Development Fund	\$ 581,176	\$ 581,176	\$ 581,176
Experiment Station Fund	\$ 550,600	\$ 550,600	\$ 550,600
U.M. Building Fund	\$ 102,317	\$ 102,317	\$ 102,317
Wheat Research Fund	\$ 75,732	\$ 75,732	\$ 75,732
Oil & Gas Fund	\$ 47,957	\$ 47,957	47,957
Experiment Station—Fertilizer Fund	\$ 29,356	\$ 29,356	\$ 29,356
North Montana Branch Station Fund	\$ 21,257	\$ 21,257	\$ 21,257
Board of Certification Fund	\$ 14,086	\$ 14,086	\$ 14,086
Experiment Station—Agriculture Fund	\$ 4,044	\$ 4,044	\$ 4,044
Sanitariums' Registration Fund	\$ 2,015	\$ 2,015	\$ 2,015

*Funds which have their total resources invested in STIP

SCHEDULE A SOURCE OF INVESTMENTS

Other Retirement Funds:		73-74	74-75	Board of Certification Fund		8,090
Highway Patrol Retirement Fund	\$	2,467,249	\$	2,961,776	Water Well Fund	8,000
Game Wardens' Retirement Fund		1,367,292		1,556,575	Cosmetology Board Fund	4,856
Montana Judges' Retirement Fund		1,072,063		1,244,847	Sanitariums' Registration Fund	2,015
Sheriffs' Retirement Fund		—0—		1,024,170	T.R.S. Fullam Fund	—0—
TOTAL	\$	4,906,604	\$	6,787,368	TOTAL	\$ 3,258,914
Various University Funds:		73-74	74-75	Other STIP:		73-74
Experiment Station Fund	\$	768,220	\$	550,600	Montana State University	\$ 4,675,508
M.S.U. Student Housing Fund		739,216		271,011	University of Montana	—0—
M.S.U. Phys. Ed. Fund		130,000		141,901	City of Helena	—0—
U.M. Field Fund		112,024		114,477	Eastern Montana College	40,495
U.M. Building Fund		96,181		102,317	Town of Chester	—0—
N.M.C. Housing & Dining Fund		77,359		102,017	Missoula County Treasurer	—0—
Experiment Station-Fertilizer Fund		31,414		29,356	Great Falls Fire Dept. Relief Assoc.	—0—
N.M.C Series B Fund		23,799		23,852	Missoula Fire Dept. Relief Assoc.	—0—
North Montana Branch Station Fund		19,255		21,257	College of Mineral Science & Technology	269,473
U.M. Pool Fund		21,416		18,918	City of Missoula	—0—
Experiment Station-Agriculture Fund		—0—		4,044	Billings Fire Dept. Relief Assoc.	—0—
M.S.U. Student Building Fee Fund		209,916		—0—	City of Great Falls	532,501
U.M. Fire Reimbursement Fund		24,693		—0—	City of Lewistown	—0—
TOTAL	\$	2,253,493	\$	1,379,750	Kalispell Fire Dept. Relief Assoc.	—0—
Livestock Funds:		73-74	74-75	Northern Montana College		117,442
Livestock Commission Fund	\$	322,163	\$	319,458	Lewistown Police Officers Ret. Fund	—0—
Livestock Board Emergency Fund		127,265		132,410	Helena Fire Dept. Relief Assoc.	—0—
TOTAL	\$	449,428	\$	451,868	Lake County Treasurer	—0—
Other Funds:		73-74	74-75	Helena Police Officers' Ret. Fund		—0—
Resource Indemnity Fund	\$	1,098,143	\$	3,279,661	Donable Property	—0—
Trust Contractors' License Refund		1,394,493		2,798,281	City of Scobey	—0—
Land Resource Development Fund		387,248		581,176	Sanders County Treasurer	—0—
Subsequent Injury Fund		73,408		558,799	Butte Fire Dept. Relief Assoc.	—0—
Capitol Building Fund		—0—		97,766	Anaconda Fire Dept. Relief Assoc.	—0—
Occupational Disease Fund		90,859		83,834	Havre Fire Dept. Relief Assoc.	—0—
Wheat Research Fund		145,554		75,732	Livingston Fire Dept. Relief Assoc.	—0—
Oil & Gas Fund		46,248		47,957	Mineral County Treasurer	—0—
					Meagher County Treasurer	29,410
					Broadwater County Treasurer	—0—
					Liberty County Treasurer	—0—
					Glendive Fire Dept. Relief Assoc.	—0—
					TOTAL	\$ 5,664,829
						\$ 12,585,731

SCHEDULE B TYPE OF INVESTMENTS

OTHER	1973-1974	1974-1975
PERS:		
ESC Building Revenue Bond	\$ 1,324,930	\$ 1,254,655
Building & Land	—0—	153,011
TRS:		
Building & Land	—0—	174,050
Workmens' Compensation:		
U.C.C. Bonds	137,000	97,000
TOTAL	<u>\$ 1,461,930</u>	<u>\$ 1,578,716</u>

SCHEDULE C INVESTMENT INCOME 1974-75 FISCAL YEAR

	CASH	CURRENT AMORTIZATION	STIP	DEFERRED LOSSES	74-75 INCOME
Treasurer's Fund	\$ 4,735,229	\$ (2,675)	\$ 7,402,795	\$ (18,501)	\$ 12,135,349
Public Employees' Retirement System Fund	7,525,292	86,850		(18,653)	7,593,641
Teachers' Retirement System Fund	6,558,171	162,766		(729,929)	6,702,284
Trust & Legacy Fund	3,859,334	582,882		(54,683)	3,712,287
Workmens' Compensation Fund	2,113,346	47,128			2,105,791
Common School Interest & Income Fund	409,787		461,433		871,220
Long Range Building Fund	202,739	3,777	579,287		785,803
Social Security Fund	602,577	1,673			604,250

(continued next page)

SCHEDULE C (continued)

	CASH	CURRENT AMORTIZATION	STIP	DEFERRED LOSSES	74-75 INCOME
Federal Revenue Sharing-Capitol Const. Fund	110,166		382,556		492,722
Long Range Building Sinking Fund	260,681				260,681
Highway Patrol Retirement Fund	186,116	3,699	8,015	(5,029)	192,801
Hail Insurance Fund	79,768	(21)	40,145		119,892
Trust Contractors' License Refund	105,294				105,294
Game Wardens' Retirement Fund	92,608	549	8,511	(586)	101,082
Resource Indemnity Fund	93,413	95	2,618		96,126
Volunteer Fireman's Fund	88,774	173	831	(137)	89,641
Experiment Station Fund			85,019		85,019
Montana Judges' Retirement Fund	77,113	268	5,607		82,988
Land & Resource Development Fund			37,836		37,836
M.S.U. Student Housing Fund	24,985	1,288			26,273
Livestock Commission Fund	10,036	960			24,832
Wheat Research Fund			13,836		13,574
Capitol Building Fund	10,071	922	13,574		10,993
U.M. Building Fund	2,862		7,081		9,943
Subsequent Injury Fund	7,010	17	2,601	21	9,649
Sheriffs' Retirement Fund		5	8,685		8,690
Federal Revenue Sharing Fund	8,172				8,172
M.S.U. Phys. Ed. Fund	7,854				7,854
U.M. Field House Fund	7,698				7,839
Oil & Gas Fund	3,746	141	3,303		7,049
N.M.C. Armory—Gym Fund	7,008				7,008
Livestock Board—Emergency Fund	4,126	5	2,734		6,865
Occupational Disease Fund	5,873	43	702		6,618
M.S.U. Student Building Fee Fund	4,331				4,331
Dixon Endowment Fund	3,840				3,840
Experiment Station—Fertilizer Fund			3,228		3,228
N.M.C. Housing & Dining Fund	2,530				2,630
North Montana Branch Station Fund					1,927
Experiment Station—Agriculture Fund					1,638
U.M. Pool Fund	1,478	44	1,927		1,522
M.S.U. Co-op Extension Service—Fund			1,638		1,435
N.M.C. Series B Reserve Fund	1,235	54	1,435		1,289
Board of Certification Fund					1,183
T.R.S.—Fullam Fund	958	11	1,183		972
U.M. Fire Reimbursement Fund	642		3		642
Water Well Fund	619				619
Cosmetology Board Fund	255				293
Sanitariums' Registration Fund		38			185
Other STIP			185		
TOTAL	\$ 27,215,837	\$ 890,692	\$ 9,839,280	\$ (827,497)	\$ 37,118,312

SCHEDULE D
SUMMARY OF BOND SWAPS
Deferral Method

DESCRIPTION	PAR SOLD	PAR ACQUIRED	REALIZED GAIN(or)LOSS	DEFERRED GAIN(or)LOSS
Trust & Legacy Fund	\$ 16,311,584	\$ 16,311,584	\$ (2,541,157)	\$ (222,565)
Public Employees' Retirement System Fund	1,500,000	1,500,000	(255,751)	(6,567)
Workmens' Compensation Fund	850,000	850,000	(79,933)	(1,723)
Teachers' Retirement System Fund	800,000	800,000	(71,754)	(2,212)
TOTAL	<u>\$ 19,461,584</u>	<u>\$ 19,461,584</u>	<u>(2,948,595) (2)</u>	<u>\$ (253,067) (1)</u>

(1) Based on the deferral method of accounting for gains and losses on bond swaps.

(2) If the completed transaction method were used for gains and losses on bond swaps.

FINANCIAL NOTES

BASIS OF ACCOUNTING

The financial statements have been prepared on the cash basis of accounting, modified for the amortization of premiums and discounts, the deferral of gains or losses on bond swaps, and the amortization of a portfolio cost adjustment.

COST OF INVESTMENTS

U.S. Government obligations, corporate bonds, and Canadian obligations are shown at original cost adjusted for amortization of premium or accumulation of discount. Mortgages are shown at par value. Building and land are carried at cost on the agencies' books. All other securities are shown at original cost, except for bequeathed common and preferred stock which are shown as having a zero cost at date of bequest.

MARKET VALUATION OF INVESTMENTS

The market valuation of investments as shown in the financial statements is computed as follows: mortgages, repurchase agreements, certificates of deposit, building and land are recorded at par value; bankers' acceptances, commercial paper, and treasury bills are shown at cost; U.S. Government obligations, corporate and Canadian bonds are priced on June 30, 1975 using an average of two dealers' quotes; common and preferred stocks are recorded at closing prices on exchanges where traded as of June 30, 1975.

METHOD OF AMORTIZATION

Bond premium and discounts are amortized on the straight-line method. Discounts from principal amounts upon acquisition of mortgages are amortized over an eight (8) year average mortgage life.

STATEMENT OF INVESTMENT INCOME

The Statement of Investment Income shows a deferred loss of \$827,497. This is composed of \$594,430 prior years' deferred losses and current year deferred losses of \$233,067 as shown in Schedule D. The investment income is net of \$181,427 administrative expenses and the Trust and Legacy Fund is adjusted downward by \$50,865.

BOND SWAPS

The deferral method of accounting for bond swaps is used. Under this method, gains and losses resulting from bond swaps are deferred over the remaining life of the bonds sold or purchased, whichever is shorter. The effect of the swaps on the completed transaction method is footnoted in Schedule D.

MORTGAGES, BUILDING AND LAND

The balances reported are provided by each agency administering them. The Board of Investments does not control the detail to these balances and, therefore, relies upon the respective agencies for the balances.

INVESTMENT OF NON-CONTROLLED FUNDS

The balance of the Employment Security Division Trust Fund Account is \$8,975,877. The total state investments do not include the investment held by units of the University System; the amount of which is unknown.

SHORT-TERM INVESTMENT POOL

The total STIP investments as shown in the graphs of Type of Investments and Total Investment differ from the STIP investments as shown in the graph of Source of Investment by the amount of \$476,365. The first two schedules show the Board's actual original cost of the STIP portfolio, while the latter schedule shows the participant's cost of the STIP units. STIP units are sold to the participants at the current market value of the STIP portfolio plus any accrued earnings as of the date the participants joined the investment pool.

YIELD ON INVESTMENTS

Most portfolio yield figures are calculated as follows: two times income divided by the sum of the beginning and ending asset balances less income. The yield for the Treasurer's Fund is calculated by determining the daily average invested balance and dividing this into current income. STIP yields represent the yield a participant would have received if funds were invested for the period 07/01/74 - 06/30/75. It is calculated by determining the daily average invested balance and dividing this into the accrued income for the period. Yields reported in the portfolio for individual holdings represent yield to maturity.

PRIOR PERIOD ADJUSTMENTS

An error in the computation of deferrals on losses for bond swaps in Fiscal 73/74 caused investment income to be understated and Deferred Losses overstated by \$37,394.

Improper amortization of premium and discounts in Fiscal 72/73 and 73/74 caused investment income in those periods to be overstated by \$81,790 and investments to be overstated by \$106,623.

NOTES TO STIP FINANCIAL STATEMENTS

UNDISTRIBUTED EARNINGS

The Statement of Income and Disbursements contains undistributed earnings in the amount of \$340,444. These earnings were retained as a result of an accounting procedure error whereby accrued earnings purchased by participants were written off twice when units were sold. This practice resulted in lower current earnings. The retained earnings were reinvested in the pool, consequently, each participant's cash and market value portion of the unit value was higher. This reinvestment likewise produced a high return to participants. Sellers of units receive their portion of the higher cash and market value plus higher earnings as a result of the reinvestment. The procedure of retaining earnings was corrected on May 30, 1975.

ADMINISTRATIVE EXPENSES

The daily accrual of expenses charged against income due participants equals one eighth of one percent times the market value of the pool, divided by three hundred and sixty-five. On the two distribution dates, the accumulated daily total of expenses is deducted from the amount available for distribution and is paid to the Board of Investments for operating expenses.

DISTRIBUTION DATES

Distributions to participants are made on the last working day of the months of May and November.

MARKET VALUATION OF SECURITIES

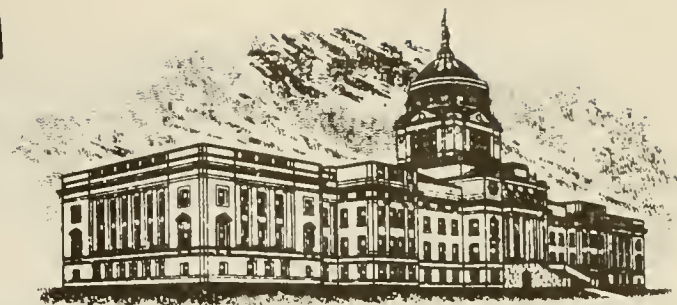
The market value of the securities shown in the statements is computed as follows: repurchase agreements and certificates of deposit are recorded at par value; bankers' acceptances, commercial paper, treasury bills, U.S. Government obligations, corporate and Canadian bonds are priced by using an average of two dealers' June 30, 1975 quotes.

AGENCY REPLIES

STATE OF MONTANA

DEPARTMENT OF ADMINISTRATION

BOARD OF INVESTMENTS



ROOM 236, MITCHELL BUILDING
HELENA, MONTANA 59601
(406) 449-2656

June 30, 1976

RECEIVED

1976

MONTANA LEGISLATIVE AUDITOR

Mr. Morris Brusett, Legislative Auditor
Office of the Legislative Auditor
Room 135, State Capitol Building
Helena, Montana 59601

Dear Mr. Brusett:

The following is our reply to your audit report for the fiscal year ending June 30, 1975:

Recommendation, Page 10

1. The State of Montana pays all indebtedness with a warrant which is not a check or cash item. The Treasurer must pay for these warrants with checks. However, the Montana banking system processes the State warrant as a cash item. The State receives a benefit of float in using State warrants. Our studies in 1972-73 indicated outstanding warrants on a daily basis ranged between \$10-30 million. A recent study covering the last 6 months has shown outstanding warrants still range between \$10-30 million. For this benefit, the Board realizes the banking system must be compensated through a reasonable demand account in every bank within the State.
2. We concur. However, in our previous studies it is an impossible task to identify the banking system's cost of processing the State's business. For this reason, in 1972 the Board asked the State Treasurer to limit the total demand deposits in banks outside Helena to \$700,000.
3. We concur. In 1973, the Board suggested to the State Treasurer that an automatic transferral of money be instituted.

Recommendation, Page 13

1. We concur.
2. We concur.

3. We concur. An independent appraisal for conventional loans is contained in the Board's mortgage purchase policies and has always been enforced.
4. We concur.

Recommendation, Page 15

1. We concur to the extent that the individual agencies involved should seek the clarification. Should they not succeed, future income from any funds invested will be credited to the General Fund. The agencies involved were investing their monies prior to the Board's inception.
2. All other agencies for whom funds are invested have legal authority for such investments and to receive investment income.

Sincerely,



James R. Howeth
Investment Officer

JRH:cl

cc: Mr. Jack Crosser
Mrs. Maxine C. Johnson
Mr. Dean H. Albert
Mr. Paul D. Caruso
Mr. John A. Hauf
Mr. John MacMillan



STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE
MITCHELL BUILDING
HELENA, MONTANA 59601

THOMAS L. JUDGE, Governor

June 30, 1976

RECEIVED

1976

Mr. Morris L. Brusett
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

MONTANA LEGISLATIVE AUDITOR

Dear Mr. Brusett:

In accordance with your request, this is the Department of Administration's reply to the recommendations included in the audit of the Board of Investments.

Page 15, RECOMMENDATION

We recommend that the Department of Administration:

- 1. Work with the Investment Division to operate PMS on a more timely production schedule.*
- 2. Develop software to account for STIP transactions.*

1. We concur. Currently PMS is operating on a timely production schedule.

2. We concur. During the last year, the Investment Division has expended \$7,000 on computer programming for STIP. We estimate it is 50 percent completed.

Page 21, RECOMMENDATION

We recommend that the Department of Administration establish accounting control over mortgage investments and mortgage income and assume all mortgage collection functions now performed by the investing agencies.

1. We concur. The Department has been working with the Housing Authority to develop a mortgage accounting system.

Page 23, RECOMMENDATION

We recommend that the Department of Administration:

- 1. Require the use of at least two dealer quotes that*



June 30, 1976

represent fairly the market value of the STIP portfolio on a day-to-day basis.

2. *Establish a properly supervised double entry accounting system for STIP.*
3. *Prepare financial statements which will fairly present the activity and condition of STIP.*

1. We concur.

2. We concur. This has been established.

3. We concur. Financial statements are being prepared on a monthly basis.

Page 24, RECOMMENDATION

We recommend that the Department of Administration eliminate the double reporting of STIP earnings.

1. We concur.

Page 25, RECOMMENDATION

We recommend that the Department of Administration require the correction of yield errors in PMS and adequately review all information prior to presentation in the Board of Investments' annual report.

1. We concur. All yield errors have been corrected.

Page 25, RECOMMENDATION

We recommend that the Department of Administration require adherence to established policy for the market value presentation of United States Government obligations, corporate and Canadian bonds.

1. We concur. Due to the difficulty in obtaining two complete quotes, the policy will be adjusted to the use of one dealer quote.

Page 29, RECOMMENDATION

We recommend that the Department of Administration include in the Board of Investments' annual report, financial statements summarizing the investment program's year-end

Mr. Morris L. Brusett
Page 3
June 30, 1976

financial position, the results of the year's investment transactions and activities, and the changes in invested balances for each investing fund.

The Investment Division did a substantial amount of work reviewing other states' financial reports in developing the presentation of the annual report. By comparison, the Board's annual report contained more information than other reports reviewed.

We agree that there should be a continuing endeavor to improve the annual report and we will continue to work with your staff to find a more acceptable means of reporting.

Page 32, RECOMMENDATION

We recommend that the Department of Administration adopt the accrual method of accounting for reporting the results of the board's operations in the investment program annual report.

The State Accounting System is on a "cash basis" of accounting. Therefore, the Board's report to those agencies having investment income is on a cash basis. Due to the uniqueness of bond accounting, we believe the amortization of discounts, premiums and the deferral of bond losses is the most conservative approach and has been a justifiable exception when reporting on a cash basis.

The Investment Division maintains two accounting systems, the PMS and SBAS. Likewise, the agencies who have investment income receive these reports from the two systems. We are not sure as to the confusion which can occur if the Investment Division adopts the accrual method. Depending upon time and resources available, we are considering reporting on both bases.

Page 41, RECOMMENDATION

The recommendations concerning the Trust and Legacy Fund are directed to the Department of Lands. However, I believe it appropriate for the Department of Administration to advise you of the action we intend to take concerning the recommendations.

We concur with the recommendations. The Investment Division has been calculating the necessary data on an annual basis. They will be instructed to furnish the Department of Lands the necessary data on a more frequent basis to allow them to make the proper quarterly distributions.

Mr. Morris L. Brusett
Page 4
June 30, 1976

The Department of Administration will assist the Department of Lands in establishing an adequate system for determining proper distributable income. The Department of Lands will be instructed to use this system in determining the required distributions.

Sincerely,


Jack C. Crosser
Director

JCC:bc

cc: Jim Howeth
Leo Barry, Jr.



DEPARTMENT OF STATE LANDS

STATE CAPITOL

HELENA 59601

(406) 449-2074

STATE BOARD OF
LAND COMMISSIONERS
THOMAS L. JUDGE
GOVERNOR
DOLORES COLBURG
SUPT. OF PUBLIC INSTRUCTION
FRANK MURRAY
SECRETARY OF STATE
ROBERT L. WOODAHL
ATTORNEY GENERAL
E V "SONNY" OMHOLT
AUDITOR

June 29, 1976

RECEIVED
JUL 10 1976
MONTANA LEGISLATIVE AUDITOR

Mr. Morris L. Brusett
Legislative Auditor
Capitol Building
Helena, MT 59601

Dear Morris:

I am in receipt of your June 16, 1976 letter regarding the audit of the Board of Investments. I want to thank you for the opportunity to comment on the report. The Department has some general comments on the text of the report which will relate to the specific recommendations of your office.

Leo Berry, Jr.

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tg. COMMISSIONER

The Department recognizes that the present accounting system for handling premiums, discounts and "swaps" is less than adequate, and has resulted in overdistribution to the schools. We have been unable to find evidence that this Department was officially notified of the situation in 1971 as stated in the report; the Board of Investments' personnel have also been unable to locate such notification. The Department, however, did notify your office of the situation and the discrepancies when the 1973-74 audit was prepared (p. 26). It was explained that the Department utilized the income account, as recorded in SBAS, to check the distributable income with the records of the Treasurer's Office.

The Department believes that the integrity of the trust must be assured; and that the procedures utilized to account for the investment of trust funds must meet strict standards of accuracy. The objective, then, is to develop a means of reimbursing the trust for overdistributed monies and to establish reasonable and efficient accounting procedures which will avoid future problems.

Your report concludes that "Since the Department . . . is responsible for the accountability of the fund, it is logical that the Department perform all functions relating to administration of the fund, including calculating and distributing the quarterly income." (p. 40) That is interesting, because once the monies are collected, the Department loses control over them. In 1971 the investment and administration of the funds was taken from the Department and placed in the Board of Investments. Once the monies are deposited with the Treasurer, the Board of Investments has

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control and supervision over those funds. The Board of Investments can take losses on the principal of the trust, elect to amortize the loss and set the rate and amount of amortization, all without consultation with or approval of the Department. Those are substantial activities over which the Department has no control; and yet it is stated that since we are accountable for the fund, it is "logical" that we perform all functions relating to administration of the fund. To argue that the Department is responsible for accounting for activities over which it has little or no control is not justifiable.

In essence, the audit report concludes that the Board of Investments may take losses on the principle of the trust, elect to amortize those losses, set the rate and amount of the amortization, but that this Department should perform the accounting functions to insure that the distributable income is correct.

As stated, the Department has been using the amount in the income account in SBAS to cross-check with the Treasurer's Office. That amount is placed in the account by the Board of Investments. The Board of Investments makes the decision to buy or sell at a premium or discount, elects to amortize, and sets the rate and amount of amortization of each security. Since the Board of Investments determines the total income for the account and determines the amortization for the securities, is it not logical that the Board subtract the amortizations from the income to give a total "distributable" income? Section 79-414(2) states in part:

The department of administration shall adopt the necessary procedures to ensure that interdepartmental or intradepartmental transfers of money do not result in inflation of figures reflecting total government costs and revenues.
(emphasis added)

By placing the entire income into the SBAS income account, without deducting the amount to be credited to the principal account, the actual distributable income figures are being inflated. The above section appears to require the Department of Administration (Board of Investments) to adopt procedures to prevent that inflation.

I was advised by your office that a new computer program to change the Board's present practices would cost approximately \$5,000. Mr. Jack Crosser has informed me that it would take an independent accountant approximately four months, with assistance from the Department of Administration, to establish the recommended accounting system within the DSL. The independent accountant would then be required to check such a system once or twice a month to insure its accuracy. To prevent a ballooning bureaucracy, I

respectfully suggest that it may be more efficient, economic, reasonable and logical to change the Board of Investment's computer program and procedure with a one-time cost than to establish a new accounting program in this Department with perpetual costs. The Department offers the following additional comments on the specific recommendations:

1. The Board of Investments is presently recording the amortized portions of premiums and discounts in SBAS on an annual basis. That recording should be done on a quarterly basis and deducted from the total income account leaving a distributable income figure. This may require the creation of an additional account.
2. On page 33 of the report it is noted that the Board of Investments elected to amortize the previous error over a 15 year period at a rate of \$90,865. The Board should set a new rate and amount to account for the additional overdistribution.
3. The procedure utilized by the Board of Investments presently accounts for the losses on security exchanges.
4. If the information already available within the Board of Investments were placed within the modified system, there would be no need to design a new accounting system with the Department of State Lands. The distributable income could be determined by deducting the amount of amortization and losses recorded by the Board from the amount of income recorded by the Board.
5. The timely journal entries and accounting data could be recorded in a modified Board of Investments procedure.
6. There would be no need for a professional accountant if the quarterly distributable income were placed in the system by the Board of Investments.
7. If the Board of Investments would determine the distributable income, the Treasurer's Office with authorization from DSL would be able to distribute the proper amount with no additional accounting systems.

By constitutional requirement, your office audits the investment program; that audit provides adequate safeguards to insure the integrity of the trust and the income therefrom. It would appear to be duplicative to require this Department to perform a check on the Board of Investments' procedures.

If you have any questions or if I can be of further assistance, please advise

Sincerely,


Leo Berry, Jr., Acting Commissioner

Attachments

LB/aj

September 25, 1975

MEMO

TO: Mike Billings
FROM: Ted Schwinden, Commissioner
SUBJECT: Montana Trust & Legacy Account No. 08000

For several years the Department has annually prepared a spread sheet showing the permanent assets of the Department.

This sheet shows the value of unsold lands in each land grant account at \$10.00 per acre; the deferred payments on land sales in each account; the total credits in the Montana Trust & Legacy Account for each grant; securities purchased and cash with the State Treasurer.

In preparing the asset sheet on June 30, 1975, we were unable to balance control account 2201 (Accountability for Advances) with Investments and cash.

The investments in the Montana Trust and Legacy Account have been carried at par in the past and are presently being carried at par in SBAS.

Since the Investment Board took over the investment responsibility in 1971, the income account for the Trust & Legacy has been discontinued and the interest income as well as the principal is carried in Account No. 08000.

We maintain manual records of the cash account, keeping separate records of interest collected and permanent funds received. The Investment Board is given these balances weekly for investment purposes. It is quite apparent that discrepancies have developed in allocation of 'interest' and 'principal' in documents received from the Investment Board.

We have been advised by some of the Investment Board staff that an audit would have to be made of all of the transactions made by the Investment Board since 1971 to correct this matter.

AUDITORS' COMMENT:

The recommendations on page 41 of the report, concerning the calculation and distribution of earnings of the common school fund were addressed to the Department of State Lands as the state agency having the responsibility for administering the funds. Article X, Section 4, Constitution of Montana, referring to the State Board of Land Commissioners, provides in part:

"It has the authority to direct, control, lease, exchange, and sell school lands . . . under such regulations and restrictions as may be provided by law."

Section 81-103, R.C.M. 1947, provides in part:

"The (land) board shall exercise general authority, direction, and control over the care, management and disposition of state lands, and subject to the investment authority of the board of investments, the funds arising from the leasing, use, sale and disposition of those lands or otherwise coming under its administration."

Thus, the Department of State Lands has the ultimate authority and responsibility over school trust funds, subject only to the investment authority of the Board of Investments. Therefore, the Department of State Lands should determine that distributions from the common school fund are proper.

The response of the Department of Administration indicates that the Investment Division will be directed to furnish the necessary data to the Department of State Lands on a more frequent basis to assist in making proper distributions. The Department of Administration will also assist the Department of State Lands in establishing a system to determine proper distributable income. With this assistance the Department of State Lands should be able to fulfill its responsibility of administering the common school fund by maintaining inviolate the principal of the fund while properly distributing income.

